

WISCONSIN ECONOMIC OUTLOOK

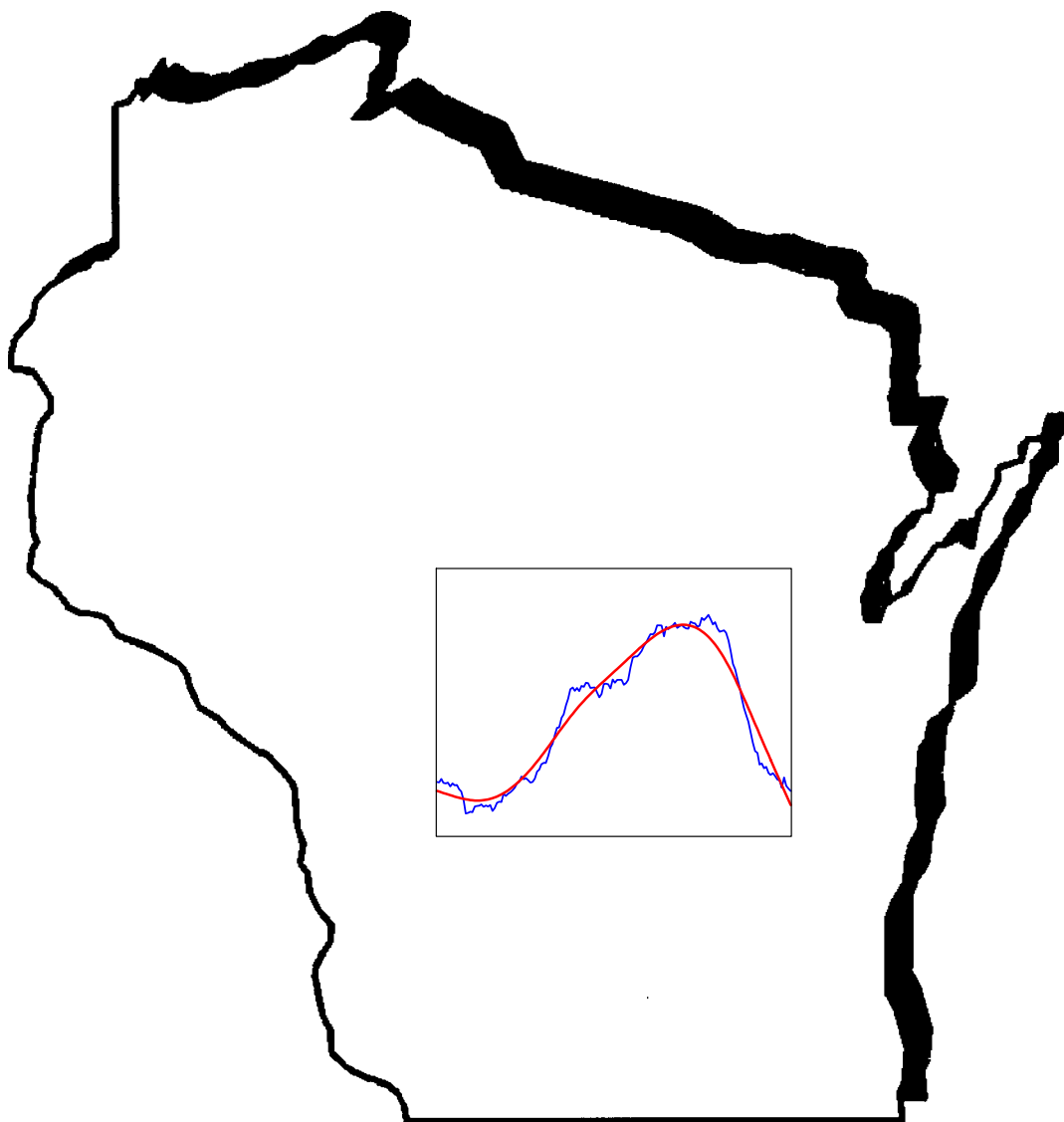


TABLE OF CONTENTS

	Page
I. ECONOMIC OUTLOOK	
Wisconsin Outlook	1
U.S. Outlook.....	8
Appendices	21
II. REVENUE COLLECTIONS REPORT	
Revenue Collections through April 2007	27
III. SPECIAL REPORT	
Wisconsin's Growing Export Economy	30

This is a regularly scheduled quarterly economic outlook released by the Wisconsin Department of Revenue. The Division of Research and Policy, Wisconsin Department of Revenue prepared the Wisconsin forecast. Global Insight, Inc. prepared the national forecast on May 7, 2007. The forecast does not incorporate data released subsequent to that date.

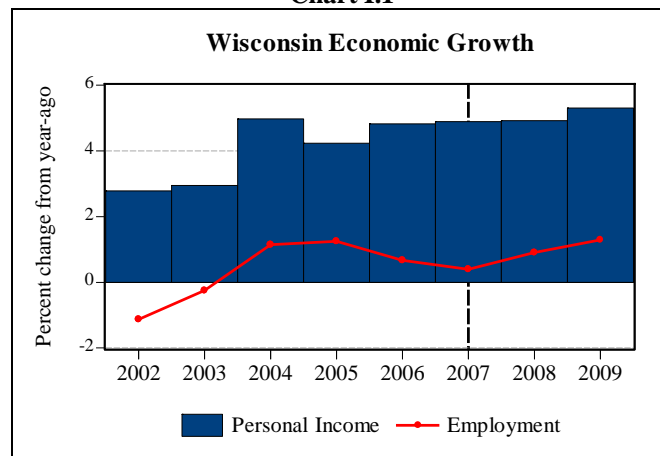
I. ECONOMIC OUTLOOK

WISCONSIN OUTLOOK

The Wisconsin economy showed continued growth in the last quarter of 2006. Since the last report, new preliminary data for the last quarter of 2006 show annual growth in Wisconsin personal income of 3.9% relative to 4.0% estimated in the February Outlook. The Wisconsin economy is expected to show steady income growth in the following years, but employment is expected to slow this year following the weaker trend in the national economy. In particular, the slowdown of the housing sector, including the higher negative risk from the unstable sub-prime mortgage market and a peak in gasoline prices that is hurting consumption are driving 2007 employment. Wisconsin personal income is forecast to grow 4.9% in 2007, while employment grows 0.4% before returning to a healthier growth rate in 2008.

The May national forecast is calling for a real GDP growth rate of 2.1% in 2007 and 2.8% in 2008, revised down from the 2.7% and 3.0% expected in February. The U.S. labor market is expected to show slower employment growth, 1.3% and 1.1%, compared with the average employment growth of 1.8% of the last two years. Weak investment and consumption are responsible for the general slowdown seen this year and into 2008, with the housing slowdown affecting both components of the economy. The outlook for consumer prices was revised up from our last release in February (1.5%). The May Outlook expects consumer prices to increase 2.2% for the current year, down from last year's growth of 3.2%.

Chart I.1



Wisconsin personal income rose 4.8% in 2006 and is expected to maintain steady growth, showing 4.9% growth rate in 2007 and 2008 as shown in Chart I.1. Average real personal income grew 1.5% in 2006. It is expected to return to stronger growth rates in 2007, averaging 2.8% for the following two years, as inflation eases and personal income continues growing at a steady rate. Employment in the state grew 0.7% last year, and it is expected to grow 0.4% this year, reflecting the expected mild correction in the economy led by the housing sector and high gasoline prices. Wisconsin job growth is expected to advance 0.8% in 2008; employment will start its recovery in 2009, growing at 1.3%, led by the services industries.

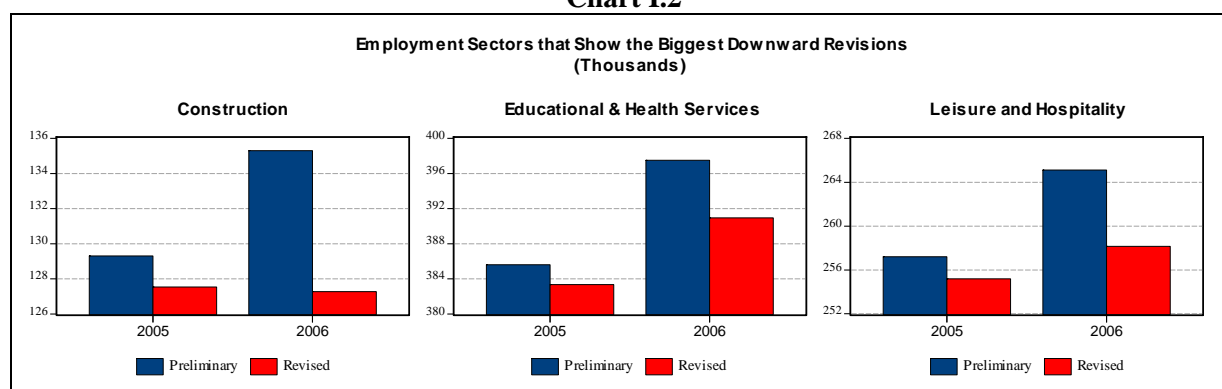
Since the last Outlook in February, the Bureau of Economic Analysis (BEA) released preliminary 2006 estimates for personal income and its components and revised estimates for the previous three years (2003-2005). Additionally, the Bureau of Labor Statistics (BLS) released revised benchmarked Current Employment Estimates (CES) for 2005 and 2006 based on total employment counts from State unemployment insurance tax reports.

Employment Outlook

BLS released revised seasonally adjusted employment data for the period 2001-2006. Total non-farm jobs were revised up 0.1% to 2,842,100 jobs in 2005, and revised down 0.3% to 2,860,700 in 2006. Revisions to prior years were insignificant. The revised estimates show growth of 0.7% in 2006, down from the previous estimate of 1.0% growth.

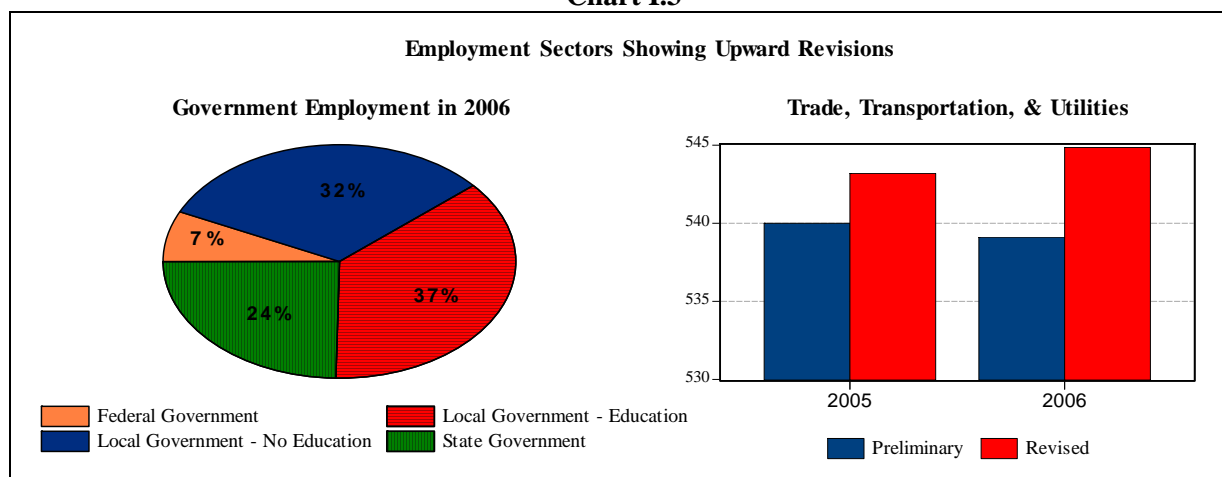
The biggest revision came in the Construction sector. This comes as no surprise as we've seen the housing market decline in the second half of 2006. Prior to the revisions, the sector showed an increase in employment of 4.6% in 2006. The data was revised down in 2005 and 2006, resulting in a decrease of 0.4% in 2006. Education and Health Services also saw a significant downward revision. Employment in this sector was revised down 3.1% in 2006 but is still showing an increase of 2.1% over the previous year. Leisure and Hospitality faced a strong downward revision of nearly 3%. However, even after the downward revision, employment in this sector grew by 1.1% in 2006.

Chart I.2



In contrast, government employment was revised up by 8,000 in 2006. With the revisions, total government employment is now showing a slight increase of 0.1% in 2006. State government (including UW System Schools and state-run hospitals) was revised down by 1,200; local government was revised up by 9,100, with education accounting for more than half of that revision (4,600), and federal government saw no change. State government is now showing an increase of 0.4% in 2006, while local government decreased by just 0.04% in 2006, up from the original decline of 1.9%.

Chart I.3



The chart above, on the left panel, shows the composition of the government employment. The biggest part of government employment is education at the local level, accounting for 37% of total government employment. Excluding education, local government employment accounts for 32% of the total government employment sector. In sum, total local government employment accounts for 69% of the total government employment in the state. State and federal employees in Wisconsin account for 25% and 7% of the total government employment respectively.

The Trade, Transportation and Utilities sector also saw a strong upward revision, as shown in the right panel of the chart above. Employment in this sector was revised up by 4,900 jobs in 2006. Originally showing a small decline, the sector is now showing moderate growth of 0.2% with an increase of 800 jobs in 2006.

The other sectors showed smaller revisions. Information was revised up just slightly in 2006 but is still showing a negative growth rate. Financial Activities, also revised up in 2006, currently shows an increase of 0.8%. Employment in Professional and Business Services was revised up as well, to reveal growth of 2.3%. Manufacturing, previously showing a small increase of 500 new jobs in 2006 is now increasing by only 100 jobs, with a growth of less than 0.1%. Other Services (except Public) was revised downward in 2006, from growth of 1.6% to 0.15%.

While total state employment was revised down in 2006, employment for the metropolitan statistical areas (MSAs) was revised upwards. The largest upward revision was seen in the Milwaukee MSA, with a revision of 9,600 jobs in 2006, while the Madison MSA saw the largest downward revision of 2,900 jobs. On the whole, the metropolitan areas saw revised growth of 0.8% for 2006. The non-metro counties in the state saw grew a revised 0.3%, down from the original estimate of 1.8%.

Chart I.4

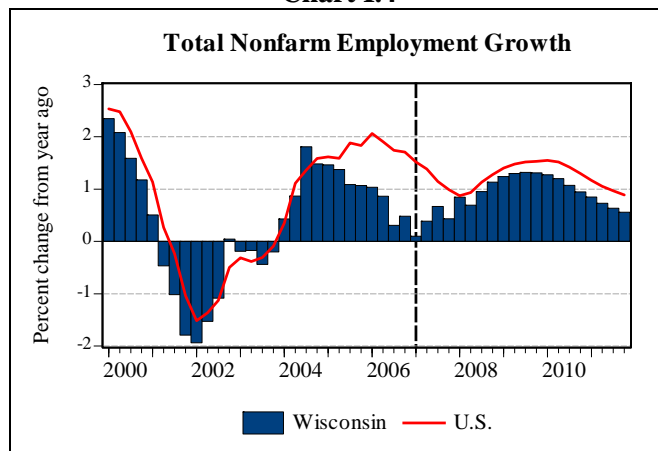
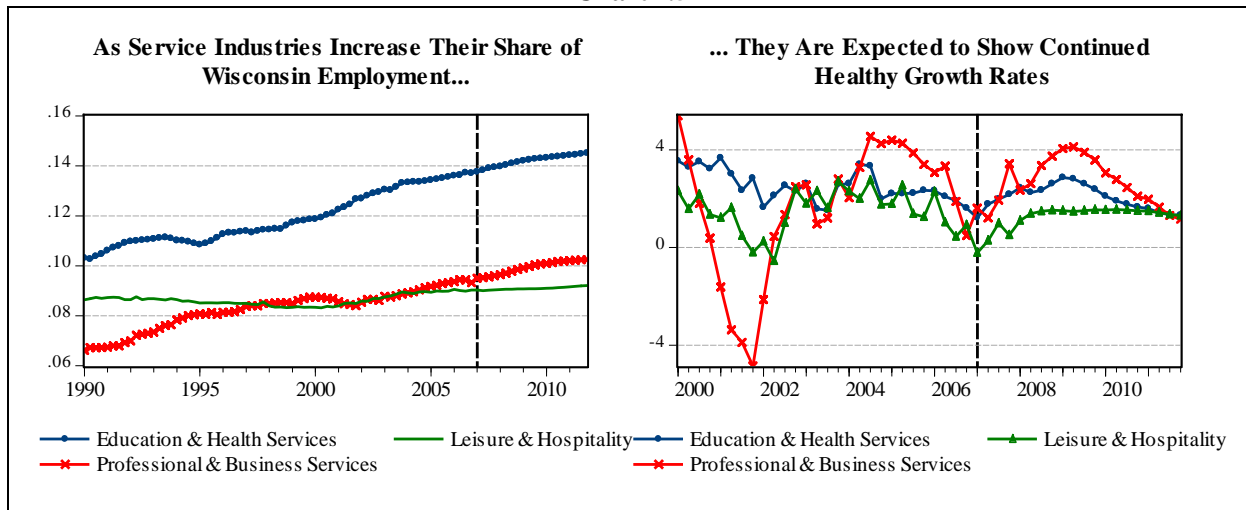


Chart I.4 above shows total nonfarm employment growth for the U.S. and Wisconsin. The vertical line at the first quarter of 2007 separates history from forecast. However, it should be noted that upward revisions are expected for the last three quarters of history. As a result, the 0.7% Wisconsin employment growth in 2006 is expected to be revised upward. In addition, the employment figure for the first quarter of 2007 shows weaker than expected job growth. The forecast assumes it will be revised up, while still showing a slowdown consistent with the cooling economy nationwide. The forecast expects annual employment growth of 0.4% in 2007 as we reach the trough in the housing market and high gasoline prices hurt consumption. In 2008, as the economy starts its recovery in the housing sector, gasoline prices ease, and manufacturing and exports maintain a healthy growth path, employment is expected to rebound showing a growth of 0.9%. For the next three years, from 2009 to 2011, employment growth is expected to increase at a steady average rate of 1.0%.

The services industries, specially, the Professional and Business Services, Education and Health Services, and Leisure and Hospitality sectors have increased their share of total Wisconsin employment over the past 16 years. As shown in the left panel of Chart I.5, the Professional and Business Services and Education and

Health Services sectors experienced continued growth in their share of total employment, from 10% and 7% in 1990 to 14% and 9% in 2006, respectively. Between 1990 and 2006, the Professional and Business Services added 115,250 jobs, and the Education and Health Services sector added 153,575 in Wisconsin. On the other hand, the Leisure and Hospitality sector lost some share of state employment during the late 1990s early 2000s, but was still able to add 58,933 jobs between 1990 and 2006. The Outlook shows these three sectors continuing to grow at stronger annual rates than total employment in the future. These service sectors are expected to support job creation, as employment in the manufacturing sector decreases during the following two years and flattens between 2009 and 2011. The Professional and Business Services, Education and Health Services, and Leisure and Hospitality sectors are expected to grow, on average, 2.6% 2.0% and 1.2% respectively for the next five years (2007-2011).

Chart I.5



Job growth in the Construction sector decreased by just 0.2% in 2006, but it is expected to post negative growth rates of 1.1% and 1.4% in 2007 and 2008 as the housing slowdown reach its bottom. Over the next three years, 2009-2011, construction employment is expected to be sustained with an average growth rate of 0.1%.

The Trade, Transportation and Utilities sector accounts for almost 20% of the total nonfarm employment in the state. This industry created 2,840 jobs on average in the last three years, after three years of losing jobs following the 2001 recession. The Information sector showed negative growth rates in the past three years, but the fourth quarter of 2006 and the first quarter of 2007 showed positive annual growth rates. Following the national forecast for employment in the Information sector, Wisconsin employment in the sector is expected to recover and start posting job gains in the following years.

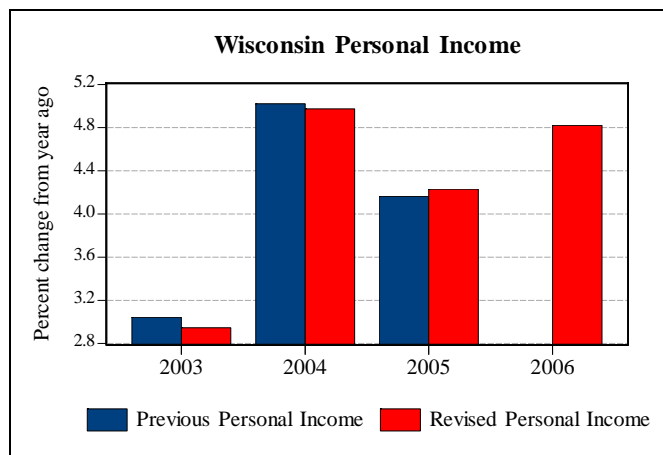
The Wisconsin unemployment rate was 4.7% in 2006 but increased to 4.9% in the first quarter of 2007. The forecast expects the unemployment rate to increase to 5.0% in 2007 and reach its peak at 5.1% in 2008 before easing toward 2009. Wisconsin and national unemployment are expected to peak in 2008.

Details of the Wisconsin employment forecast are presented in Appendices 1 and 2.

Income Outlook

Since the last Outlook, the Bureau of Economic Analysis (BEA) released preliminary 2006 estimates for personal income and its components, and revised estimates for the previous three years (2003-2005). According to BEA, Wisconsin total personal income grew 4.8% in 2006, lower than the national growth of 6.3% but the same as the regional average growth of 4.8%. Per capita personal income in Wisconsin grew 4.3%, lower than the national (5.2%) and the regional average (4.5%). Revisions for 2003 through 2005 were small in aggregate, averaging just 0.1%. Wisconsin personal income was revised down 1.0% for the years 2003 through 2005, leaving the personal income growth rate for 2004 and 2005 at 4.2% and 5% respectively.

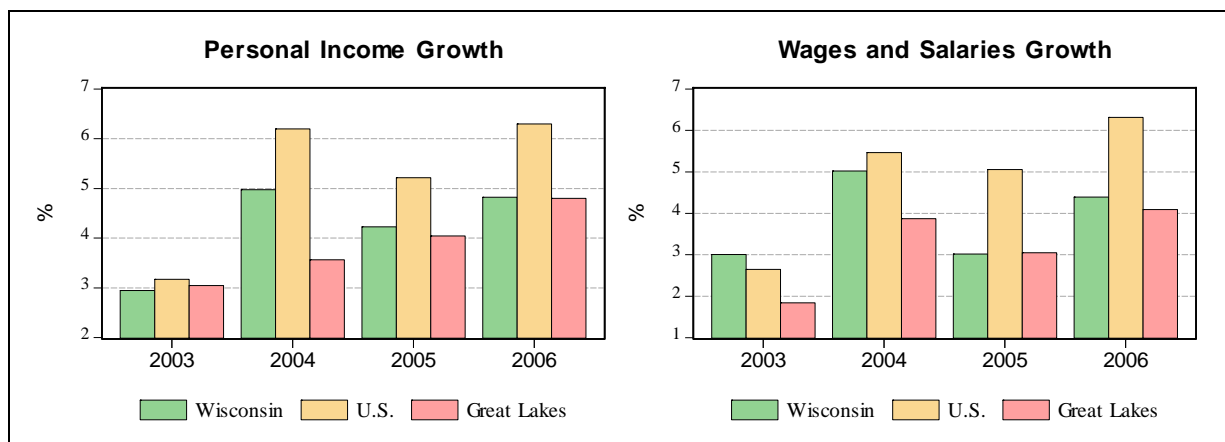
Chart I.6



The first three quarters of 2006 personal income show revisions of 0.3% on average. Revised personal income grew, on average, in the first three quarters of 2006 by 4.7% year over year (y/y). The preliminary estimate of 2006 fourth quarter personal income was \$195.5 billion, \$0.9 billion below our February estimate, but still showing a healthy annual growth rate of 5.1% y/y. Wage and salary income showed downward revisions averaging 0.7% for the first three quarters of 2006.

For the third consecutive year, the Southwest region enjoyed the fastest growth (8.3% up from 7.7% in 2005) and the Great Lakes region saw the slowest growth (4.8% up from 4.0% in 2005). The contrast between the two regions reflects a mining boom in the Southwest and employment losses in auto manufacturing in the Great Lakes.

Chart I.7



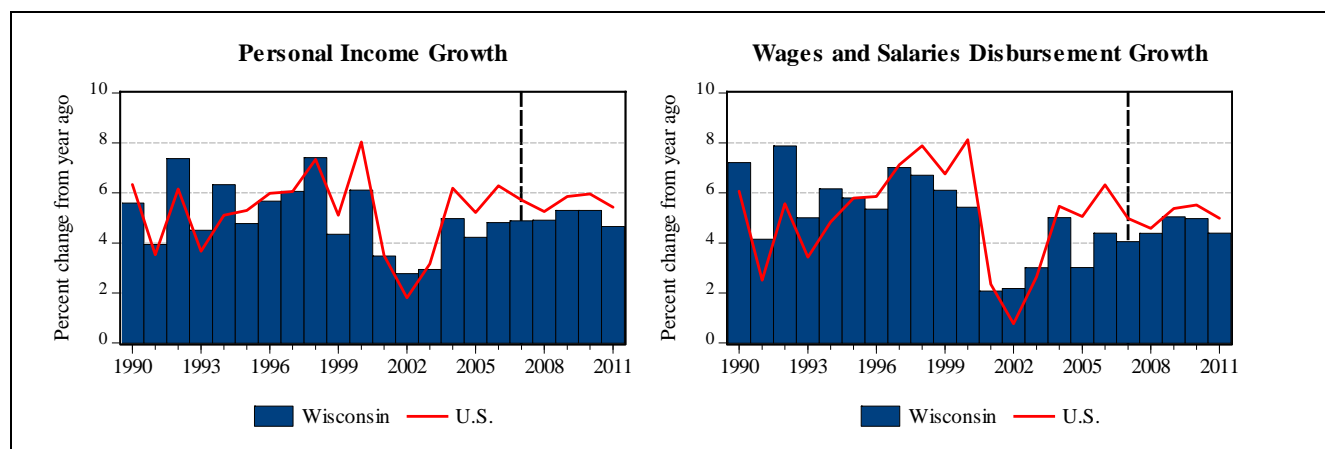
In 2006, the Great Lakes region ranked fourth out of the country's eight regions, with a per capita income of \$34,854. Wisconsin was the 22nd -wealthiest state, down just one place from its 21st place in 2005. Wisconsin is below Illinois (13rd) but still above the other three Great Lakes' states, Indiana (33rd), Michigan (24th) and Ohio (29th). It should be mentioned that Illinois is the only state in the region with one of the top ten biggest cities in the country. Chicago is the third largest city in the country with a population of 2.9 million.

Total personal income of Wisconsin residents in the fourth quarter of 2006 grew 1.0% (3.9% SAAR - seasonally adjusted annual rate) from a revised annualized level of \$193.6 billion in the third quarter to \$195.5 billion in the fourth quarter. Personal income in the Great Lakes States (Illinois, Indiana, Michigan, Ohio, and Wisconsin) grew by 1.1% from the third to the fourth quarter. Illinois had the fastest personal income growth of 1.3% and Ohio was the slowest, growing just 0.9%. Wisconsin, Michigan and Indiana grew at the same rate of 1.0%.

Wages and salaries made up 55.3% of the total personal income in 2006. Wages and salaries disbursement in Wisconsin grew 4.4% in 2006, higher than the regional average of 4.1%. Wages and salaries disbursement of Wisconsin residents in the fourth quarter of 2006 grew 1.2% (4.9% SAAR) from a revised annualized level of \$106.4 billion in the third quarter to \$107.7 billion in the fourth quarter.

Steady Wisconsin personal income growth for last three years is expected to continue as shown in the left panel of the chart below. After posting 4.8% growth in 2006, Wisconsin personal income is expected to grow 4.9% in 2007 and 2008 and will accelerate to a 5.1% average annual growth in the following three years (2009-2011).

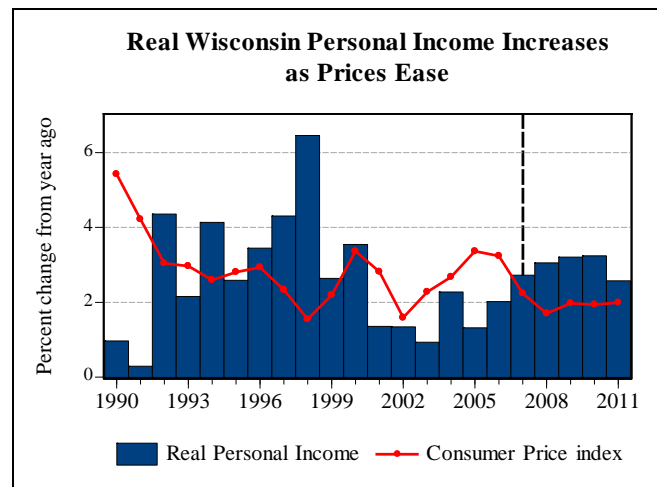
Chart I.8



Wages and salaries disbursement, the biggest component of personal income is forecast to continue showing the same healthy growth of recent years, with growth rates over 4%, for the next two years. And it is expected to show stronger growth rates towards 2009 and 2010. Dividend income grew 13.0% in 2006 and is forecast to grow at the same pace through 2008.

Disposable personal income (total after-tax income received by persons available for spending or saving) of Wisconsin residents grew 4.1% in 2006 and is forecast to grow 4.7% in 2007 and 5.1% in 2008 as personal tax and nontax payments slow down.

Chart I.9



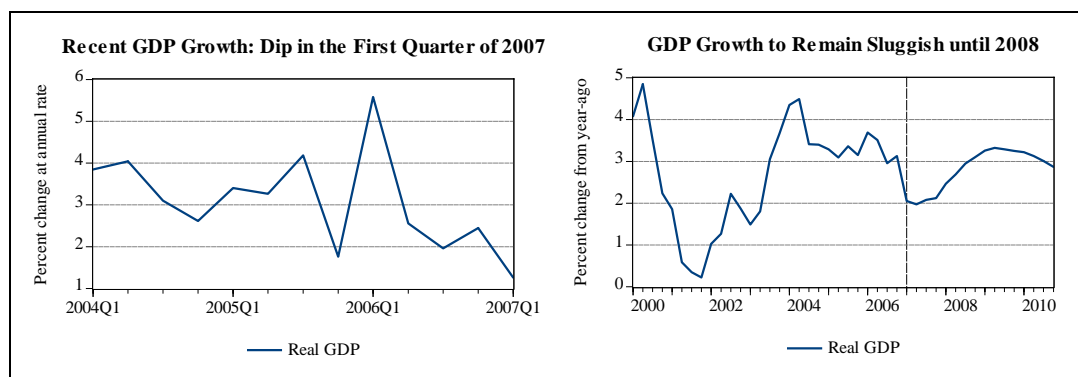
As Chart I.9 shows, real personal income gains in Wisconsin in 2005 and 2006 were 1.3% and 2.0%, respectively, with high oil prices and inflation above 3% in both years. However, the national forecast calls for an inflation rate of 2.2% this year and 1.7% for 2008. As shown in the chart above, inflation eases in 2007 and stays below 2% for the following years, receding to the Fed's comfort zone. As a result, real personal income is expected to increase 2.7% in 2007 and is expected to grow above 3% for the following three years. Real per capita income in Wisconsin is also expected to grow at higher than 2% rates in the next years, reaching almost 3% by the year 2010.

Details of the Wisconsin income forecast are presented in Appendices 3 and 4.

U.S. OUTLOOK

Growth in GDP appears sluggish, but in line with Global Insight's forecast of 2.1% in 2007. The housing downturn has not yet hit bottom, and some slowing in the labor market and consumer spending growth is likely on the way. Capital equipment spending was weak at the turn of the year, but seems to be stabilizing now; the export outlook still looks good despite a first-quarter dip. Despite better news on core inflation, the Federal Reserve has no room to cut interest rates now. The second half of the year will see one small cut, as core inflation becomes more comfortable.

Chart I.10



The Forecast in Brief

First-quarter GDP growth of just 1.3%, although matching expectations, raises the question of whether the economy has downshifted again, increasing the risk that it could tumble into recession. The answer is “no”; the first quarter will prove to be the trough for economic growth. As the year progresses, a gradual improvement in growth will be seen as the housing drag diminishes, along with some easing in inflation pressures. The overall GDP growth forecast for 2007 remains at 2.1%.

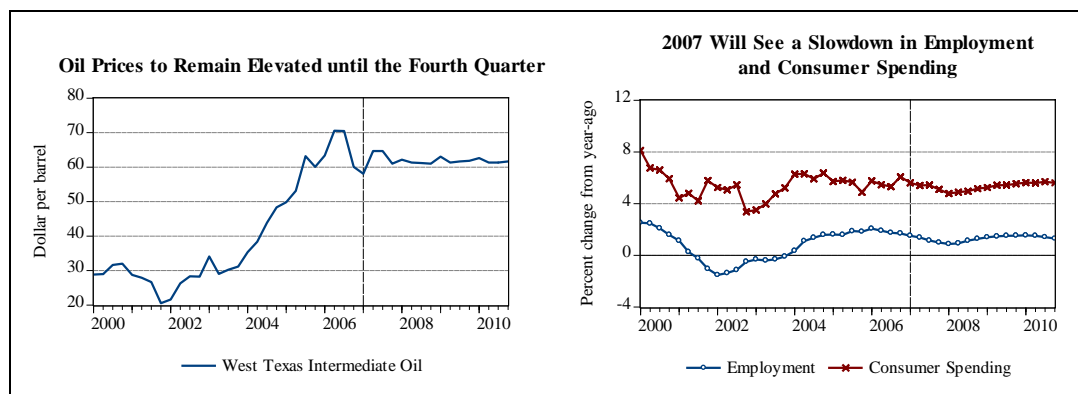
Undeniably, there are downside risks to the forecast. The sluggish April employment report suggests that the slowdown in the economy may finally be filtering through to the labor market. And disappointing evidence on home sales suggests that housing activity has yet to hit bottom. But some indicators are pointing up, notably the ISM manufacturing index, which improved sharply in April, suggesting that industrial production growth is ready to resume after the inventory-driven slowdown around the turn of the year.

In the first-quarter details, a big drag from housing and a further downward adjustment in inventory accumulation were not surprising. But there was an upside surprise for business equipment spending (which was soft, but did not decline as feared) and a downside surprise for exports (which fell). Consumer spending rose a robust 3.8%, preventing GDP growth from dipping even further. Although the consumer will not be as supportive in the second quarter, it is expected that second-quarter GDP growth will improve to 2.2%. Housing will be a big drag again, but Global Insight expects both business equipment spending and exports to improve, while inventories should be roughly neutral.

Housing remains the biggest drag on growth, chopping 1.0 percentage point off GDP growth in the first quarter, through its direct effects on construction alone. The forecast expects a drag averaging 0.8 percentage point over the rest of 2007. Existing home sales fell very sharply in March, and that month's rebound in new home sales fell short of expectations. Anecdotal reports from builders on the spring season's prospects have not been encouraging, and builder sentiment has slipped again. The meltdown in the subprime mortgage

market will increase both foreclosures and the overhang of homes for sale, while the stricter lending standards that are following will place a new drag on demand. The projection for housing starts in 2007 remains 1.41 million units, down from 1.82 million in 2006. The forecast also assumes an unprecedented decline in national nominal home prices during 2007 (of around 4.0% on a fourth quarter-to-fourth quarter basis).

Chart I.11



Consumer spending was robust in the first quarter, but will probably be the weak link in the second quarter, when it is expected to grow just 1.7%. Consumers are running into some headwinds. First, the labor market is likely to soften in coming months, restraining income growth. Second, soaring gasoline prices are biting into spending power. Supply constraints at refineries have caused the spread between gasoline and crude oil prices to spike higher; as of early May, gasoline prices were above \$3 per gallon, and Global Insight expects a \$2.93 average price for the second quarter. It is estimated that consumers will spend \$36 billion more on gasoline in the second quarter than the first. That represents 0.4% of disposable income not available for spending on other items. By the third quarter, gasoline prices should be lower as supply constraints ease, helping consumer spending to reaccelerate.

The third headwind for consumers is declining home prices, which will remove the fuel that has allowed spending growth to outpace real income gains in recent years, producing a saving rate that has been negative for two years. Even with pay gains now outstripping inflation, some readjustment of spending relative to income will still be required. But with real disposable incomes rising faster this year than last (3.2% versus 2.6%), consumer spending growth in 2007 can almost match 2006 (3.1% versus 3.2%), even as the saving rate begins to correct upwards.

The need to boost economic growth through productivity improvements at a time when the labor market is tight should bolster business fixed investment. But equipment spending fell in the fourth quarter and edged only slightly higher in the first quarter. While some of the weakness is easily explained (e.g., weakness in construction equipment due to housing's downturn and in heavy trucks due to changed environmental regulations), the slowdown is still troubling. It may reflect the prospect of weaker corporate earnings growth this year. The good news, though, is that first-quarter spending was better than expected, and that orders for capital equipment picked up as the quarter ended. This supports the view that spending will continue to revive in the second quarter and beyond. But that still leaves equipment spending projected to be up just 1.7% in 2007, compared with 6.5% growth in 2006.

Nonresidential construction is boosting GDP growth in the first half of 2007. Although the decline in homebuilding will begin to weigh on commercial construction as the year progresses, the forecast expects nonresidential structures spending growth to average 6.6% in 2007, not far below the 9.0% pace of 2006.

Growth in the economy has had a very beneficial impact on the federal budget deficit. Global Insight expects the deficit to narrow again in fiscal year 2007, hitting \$192 billion (1.4% of GDP). Sharp revenue gains, fueled by surging profits and bonuses, are driving the improvement. It is believed that higher tax rates in one

form or another will be needed eventually to keep the deficit under control, given long-term demographic pressures on entitlement spending, but the recent improvement has made the issue less immediate.

Improved economic growth around the world, plus a declining dollar, mean that exports will be an important source of strength. The first-quarter decline in exports is a temporary interruption of a strong upward trend. Export growth should still register in the high single digits during 2007.

The long-term decline in the dollar is continuing in 2007. Growth and interest rate differentials are turning against the dollar. Foreign interest rates will rise further during 2007, while U.S. rates should be little changed. The forecast anticipates that by the end of 2007, the euro will break through \$1.40 and the yen will approach 110/dollar.

The current-account deficit is likely to have peaked at \$857 billion (6.5% of GDP) in 2006. This year should see the first narrowing of the gap (to \$812 billion) since the recession year of 2001, as exports gain on imports, in both real and nominal terms. A declining oil bill is the single biggest reason for the falling trade gap—but the non-oil deficit has turned as well.

Inflation has probably topped out, but is still too high for the Federal Reserve's comfort. Headline CPI inflation has been driven primarily by energy prices, and after exceeding 4.0% year-on-year (y/y) in mid-2006, should average 2.2% y/y this year, even allowing for the recent surge in gasoline prices.

But core inflation (excluding food and energy) is what's troubling the Fed. Here, the latest news is good. Core PCE inflation fell back to 2.1% in March, from 2.4% in February, getting close to the Fed's 1-2% comfort zone. Core inflation dipped to 2.1% late last year, and then did not stay there. This time, given sluggish overall growth and slower increases in residential rents than a year ago, core inflation is expected to stay down around 2.0% during the second half of 2007. But the Fed will need to see the benign evidence on inflation, along with further cooling signs in the labor market, before relaxing.

The Federal Reserve is keeping all options open on interest rates, although for now inflation remains its primary concern. The second half of the year will see one rate cut, on the view that as inflation returns to the upper limits of the comfort zone, the Fed will feel able to give a sluggish economy some help by easing very slightly on the brakes. This implies a 5.0% federal funds rate at year-end, beyond which no further changes are expected. The risks are tilted towards no cut at all.

KEY FORECAST ASSUMPTIONS

Oil Prices Little Changed, But Gasoline Spikes Higher. The oil price assumption averages \$65/barrel (WTI) in the second and third quarters, before easing to \$61 in the fourth. It then hovers just above \$60/barrel over the rest of the decade. But refining supply constraints have sent gasoline prices soaring, and Global Insight assumes an average retail gasoline price of \$2.93/gallon in the second quarter, before supply responds and drives the price down to \$2.59/gallon in the third quarter and \$2.39/gallon in the fourth quarter.

Natural Gas Price Assumption Little Changed. The forecast assumes an average price of \$7.65 per million Btu (Henry Hub cash price) this quarter. For 2007 overall, the forecast assumes a price of \$7.74.

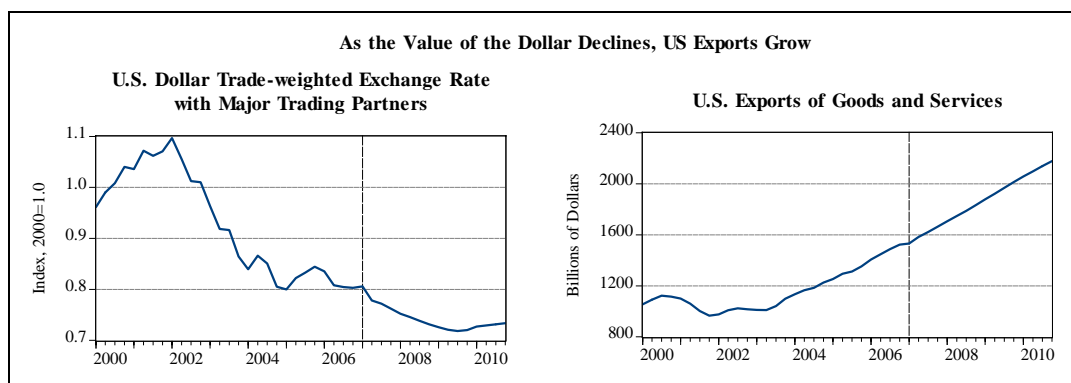
Federal Reserve on Hold for Now. It is assumed that the Fed will hold the federal funds rate at 5.25% through the first half of the year. The Fed then makes one 25-basis-point cut in August 2007, in response to still-sluggish growth and the return of inflation to the top end of the Fed's 1-2% comfort zone. Thereafter, the funds rate remains on extended hold. If inflation stays stubbornly high or growth is more resilient, there will be no rate cut.

Dollar Decline to Continue. The current-account deficit and the prospect that yield differentials will move against the dollar should continue to pull the currency down. The dollar dropped about 5.0% against major currencies during 2006 (fourth quarter-to-fourth quarter basis), and a further 5.0% decline is anticipated this

year, reaching rates of \$1.42/euro, 110 yen/dollar, and C\$1.13/dollar at the end of 2007. China will allow the pace of renminbi revaluation to accelerate, to help cool its rapidly growing economy. The forecast assumes that the Chinese currency will appreciate 7.9% against the dollar over the next 12 months.

Foreign GDP Growth Expected to Slow. Growth in major-currency trading partners accelerated to 2.8% in 2006, but Global Insight expects an easing to 2.4% in 2007 (mainly driven by Canada and to a lesser extent the Eurozone). Real goods exports saw double-digit gains in 2006, and gains of 5-10% are expected in 2007 with a weaker dollar helping to offset the slower foreign growth.

Chart I.12



Productivity Growth Expected to Improve. Although the growth rate of productivity has slowed to around 2.0% y/y, the 1.1% rate in the first quarter represents a cyclical trough. The pace should improve over the rest of the year, though, as the labor market adjusts further (especially in residential construction), and Global Insight expects productivity growth to average 1.6% for 2007 and 2.3% for 2008.

Tax Burden to Rise. Global Insight does not believe that budget-deficit reduction will be achieved by spending restraint alone. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled at the end of 2010. But expect some increase in the income-tax burden, whether through the impact of the Alternative Minimum Tax (AMT) or through some kind of tax reform that raises a similar amount of revenues. There are no major tax initiatives anticipated before the 2008 presidential elections, though, and the forecast assumes that temporary "fixes" will prevent the AMT from affecting significantly more taxpayers under this Congress.

Defense Spending Growth Quickens. Spending for the wars in Iraq and Afghanistan continues to climb. Global Insight expects real federal defense purchases to rise 2.8% in calendar 2007 (up from 1.9% growth in 2006). Overall federal purchases rise 1.8% in 2007, down from 2.0% growth in 2006.

Minimum Wage to Rise. The forecast assumes that Congress will raise the federal minimum wage from \$5.15 to \$7.25/hour, in three annual increments of \$0.70, beginning on August 1, 2007. Beyond that, the minimum wage roughly keeps pace with price inflation.

DETAILS OF THE U.S. OUTLOOK

Consumption

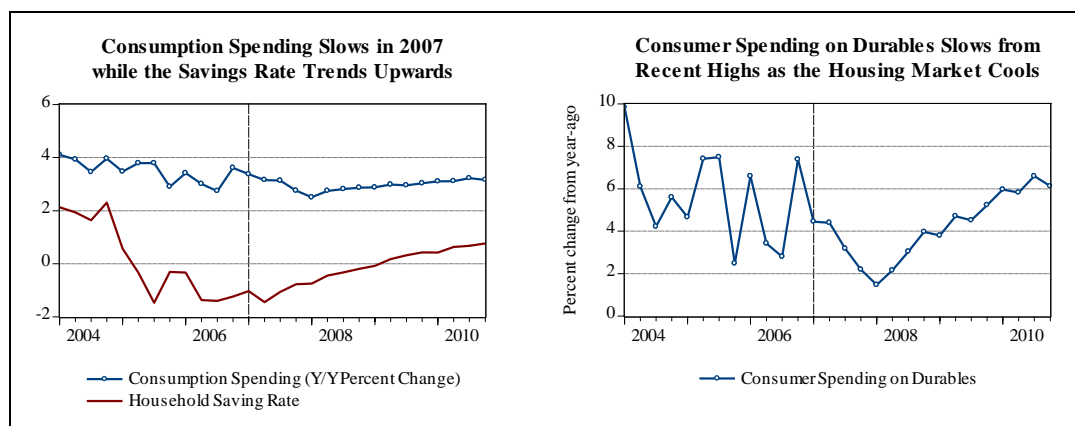
Real consumer spending growth will slow markedly in the second quarter, in response to a spike in gasoline prices. Despite solid gains in disposable income, consumers will spend cautiously in the year ahead, as home values continue to fall. Weakness in home goods and automotive markets will be offset by strength in recreation, health, and information technology spending.

After strong gains of 0.6% in February and 1.0% in March, retail and food service sales dipped 0.2% in April. This drop was anticipated for various reasons: an early Easter, with pre-holiday purchases made in March; soaring gasoline prices, which undermined purchasing power; the coldest April since 1997, which hurt sales of seasonal goods; and an apparent slowdown in employment growth. Apparel, general merchandise, and building and garden supply stores posted big gains in March, followed by big declines in April. Light-vehicle sales edged down to an annual rate of 16.2 million units in April, their lowest level since November. Based on new data, Global Insight expects that first-quarter growth in real consumption will be revised upward from a 3.8% annualized rate to 4.2%, and maintains the projection of 1.7% growth in the second quarter.

Consumer spending is due for a correction this spring. The recent surge in gasoline prices to over \$3 per gallon has eroded confidence and purchasing power. With housing markets showing further deterioration, consumers will spend cautiously in the year ahead. After more than five years of rapid real growth, purchases of home furnishings and appliances will stall in the months ahead. Yet, if gasoline prices retreat to \$2.50 in the second half of 2007, real consumption growth should rebound to a 2.7% annual rate. Strengthening gains in real disposable income will provide underlying support to spending. Thanks to accelerating wage rates and moderating inflation in 2007, workers will enjoy their first significant real wage growth since 2003.

The major impact of the housing recession on consumer spending will come from the wealth effect. A national home price decline of 5.0% is expected to reduce housing wealth by \$1.0 trillion. A consumer spending response of 6 cents on the dollar would trim \$60 billion, or 0.6%, off spending. A related channel through which homeowners finance consumption is mortgage equity withdrawal. A March 2007 working paper by Alan Greenspan and James Kennedy estimates that in the 2001–05 periods, about 24% of net home-equity extraction was used to finance personal consumption expenditures.¹ This spending amounted to 1.6% of disposable income. Homeowners used the balance of their proceeds for home improvement investments, repayment of nonmortgage debt, and acquisition of other assets.

Chart I.13



¹ "Sources and Uses of Equity Extracted from Homes"

<http://www.federalreserve.gov/pubs/feds/2007/200720/200720pap.pdf>

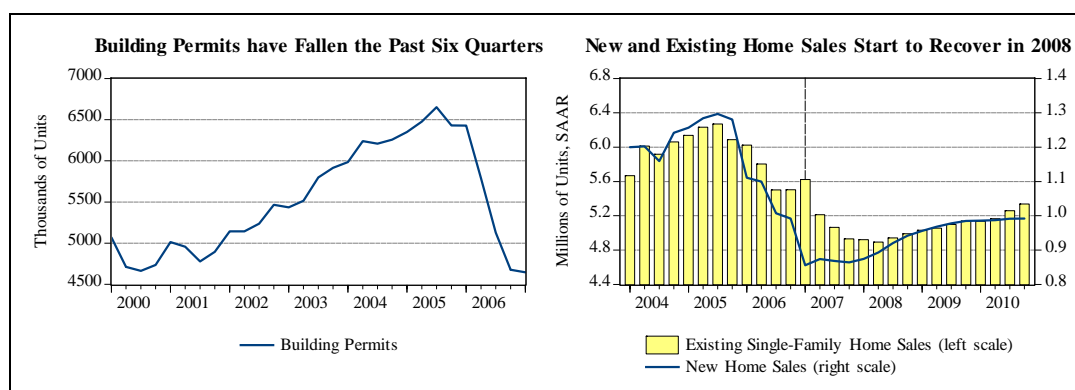
Housing

The forecast for home sales, housing starts, and residential construction was again lowered because of the deteriorating subprime mortgage market. Housing will not turn around until 2008. Residential construction takes 0.7 and 0.9 percentage points off GDP growth in the second and third quarters of 2007, and 0.9 point off for the year. House prices are expected to drop in both 2007 and 2008.

Existing home sales dropped 8.4% in March, to a 6.12-million-unit annual rate. Single-family sales were down 9.5% (the largest percentage drop since January 1989), while condo/co-op sales were unchanged. Median single-family home prices were 0.9% lower than a year earlier. Sales plummeted in all four regions of the country, indicating that problems in the subprime mortgage market, more than the weather, were behind the sharply lower numbers.

Housing starts rose 0.8% in March, to an annualized 1.518 million units. Housing permits also increased 0.8%. Single-family permits advanced for only the second time in 14 months. Permits climbed in three of the four regions, and rose for the fourth straight month in the West. New home sales rose 2.6% in March, to a seasonally adjusted 858,000-unit annual rate. Estimated sales were up in the Northeast. Sales also rose in the Midwest, but were down in the South and the West. The inventory yardstick (the months' supply of new homes at current sales rates) improved slightly from 8.1 to 7.8 months.

Chart I.14



One can easily build a case showing that if not for the problems in the subprime market, housing by now would be on the mend. In the closing months of 2006, nearly every major national housing statistic was either stabilizing or improving. Then, early in 2007, the subprime mortgage market began to unravel and all of the housing indicators turned south. It now appears that the subprime meltdown will delay the housing recovery by about a year, and result in more than a 10% decline in sales and starts.

In the May forecast, housing starts plunge 22.5% in 2007. Single-unit starts account for most of this year's drop, but multiple-unit starts, which have not been hit as badly by the housing downturn, drop 10.5%. Starts bottom out in late 2007 and then begin to rise gradually because of falling inventories and increasing household formation. New and existing home sales should drop a respective 17.8% and 8.4% in 2007, which would nearly match their 2006 declines. Global Insight still expects prices of new and existing homes to retreat this year and next.

The slowdown in housing starts is behind the weak forecast for residential investment, which falls 12% and 17%, respectively, in the second and third quarters of 2007, for a drop of 16% for the year, chopping 0.9 percentage point off GDP growth. Inventories of new homes should continue on a gradual descent from their third-quarter cyclical peak. Falling home prices will stimulate demand, and home sales should rebound in mid-2008. After the downturn, the housing market, driven by growing household formation, will begin a slow but steady comeback.

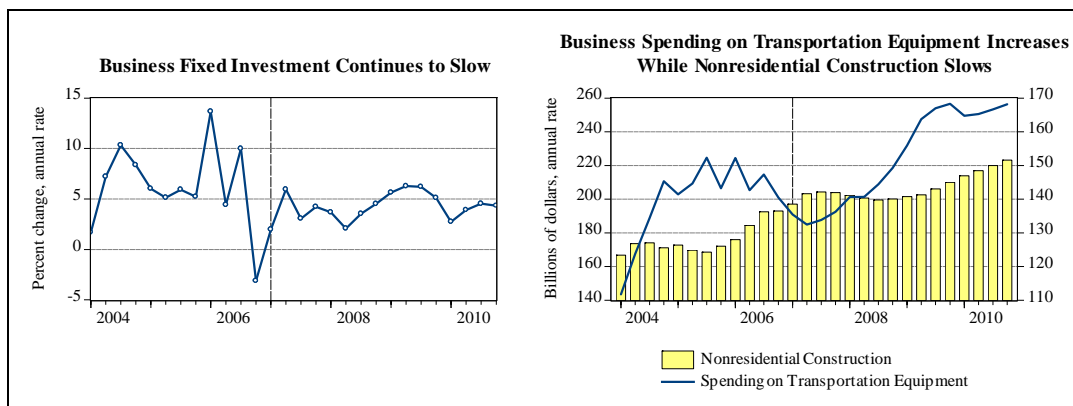
Business Investment

Real spending on equipment and software rose a better-than-expected 1.9% in the first quarter, despite big drops in heavy-duty trucks and construction equipment. Spending on equipment and software will remain sluggish over the near term because of the slowdown in the U.S. economy. Nonresidential construction will post solid numbers in the first half of 2007, but second-half growth will falter because of the side-effects of the housing slump. For 2007 as a whole, nonresidential construction will increase 6.6% over 2006.

Real business spending on equipment and software rose 1.9% in the first quarter, after dropping 4.8% in the fourth quarter of 2006. Investment in computers and information equipment, boosted by Microsoft's release of Windows Vista, jumped 53.2% and 15.8%, respectively, in the first quarter. Transportation equipment spending dropped 13.6%, dragged down by plummeting heavy-duty truck sales. Investment in industrial equipment rose 1.8%, as solid gains for special industrial machinery and electrical transmission, distribution, and industrial apparatus offset a big drop in engines and turbines. Spending on "other" equipment fell 18.1%, mainly because of plummeting construction equipment sales.

Real spending on nonresidential construction increased 2.2% in the first quarter of 2007. However, based on March's construction put-in-place estimates, Global Insight expect this number to be revised up to about 4.7%. According to the March estimates, year-on-year spending for the month on nonresidential construction remained solid almost across the board, with lodging up 58.5%, offices up 31.4%, commercial space up 10.6%, healthcare up 14.4%, communications up 20.5%, and manufacturing up 17.4%. Overall, private nonresidential construction was up 16.5% from a year earlier. In the forecast, nonresidential construction adds about a quarter of a percentage point to GDP growth in 2007, but then nothing in 2008 and 2009.

Chart I.15

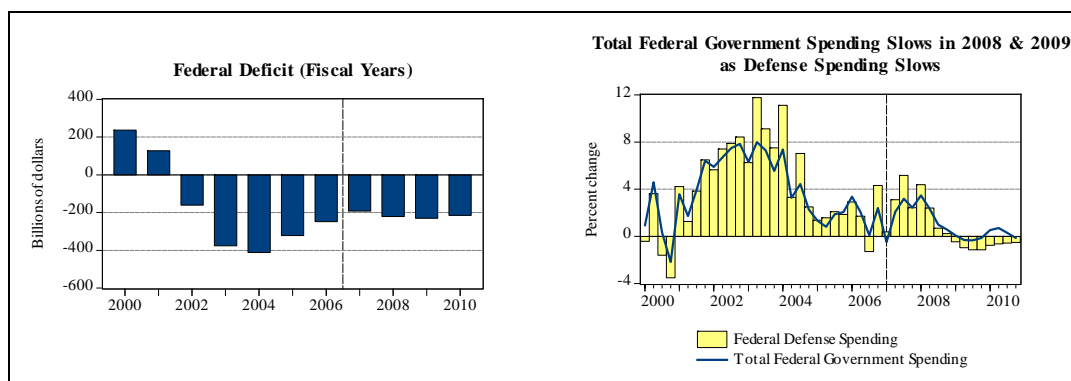


Spending on industrial machinery should see a solid second quarter, as engines and turbines rebound. But thereafter, major spending programs launched by manufacturers last year will be winding down, and real investment in industrial equipment drops over the second half of 2007 and during 2008. Spending on heavy-duty trucks will plummet again in the second quarter, more than offsetting a projected rebound in light vehicles. This accounts for the 8.6% second-quarter drop in transportation equipment spending. Once again, construction and agricultural equipment will be a drag on "other" equipment spending. Overall, the forecast expects spending on equipment and software to grow a little more than 3.0% in the second and third quarters and 4–6% in the following four quarters.

Government

Strong growth in corporate and individual tax receipts over the first seven months of fiscal 2007 has reduced the estimate of the short-term deficit. Global Insight continues to assume that the supplementary funding bill will be approved in tandem with the minimum wage increase before the summer recess, but only about \$3–5 billion in incremental discretionary spending will actually occur in fiscal 2007, while roughly \$7–10 billion will be moved forward into fiscal 2008.

Chart I.16



The monthly Treasury statement reported a federal surplus of \$177.7 billion in April, up sharply from a surplus of \$118.8 billion in April 2006. Revenues rose 21.8% year-over-year (y/y) in the month. Corporate income tax receipts were up 6.1%, while individual income tax receipts skyrocketed 33.9%. The strength in individual income taxes was a byproduct of very solid 6.5% compensation gains during 2006, as well as robust 9.0% gains in interest and dividend income. In addition, the IRS reported that they processed more returns in April 2007 than they did April 2006.

Expenditures rose by 5.0% y/y in April, with strong growth in Medicaid partially offset by declines in Homeland Security (FEMA spending on hurricane relief dropped sharply compared with 2006). Due to relatively subdued growth in outlays, combined with strong growth in revenues, the fiscal-year-to-date deficit totaled \$80.8 billion in April, a huge improvement versus last year's \$184.1 billion deficit in April.

Also, because of strong year-to-date gains in both corporate and individual income tax receipts, the fiscal 2007 deficit will land close to \$191.7 billion, down about \$56.5 billion from fiscal 2006. As a consequence of a lower deficit and higher-than-expected demand for U.S. Treasury notes from state and local governments, the Treasury Department recently reduced its projections of market funding requirements this fiscal year to only \$66 billion, down from an estimate of \$100 billion in early 2007. Due to these reduced funding requirements, the Treasury recently announced that it will no longer issue new three-year notes.

The 2007 supplementary appropriations debate entered a new phase on May 1, when President Bush vetoed the congressional bill calling for a July 1 Iraq government "benchmark" review and the withdrawal of U.S. troops commencing on October 1, 2007. The bill was sent back to Congress, and the latest re-drafts split the defense funding into two parts. The first part would be made available to the military immediately, while the second part would be made available contingent on the progress of the Iraqi government in meeting political benchmarks. Initial comments from the administration and the Defense Department on this two-stage funding approach were negative, so by mid-May it was still unclear how the stalemate would be resolved.

The short-term deficit projection for fiscal 2007 has been reduced to \$191.7 billion, down from \$224.7 billion in the February Outlook. This downward revision is connected with strong revenue growth: current-year projections for both corporate and personal tax receipts were revised up. Long-term growth rates for revenues were unchanged, so the path for the long-term deficit was therefore reduced only slightly.

International Trade

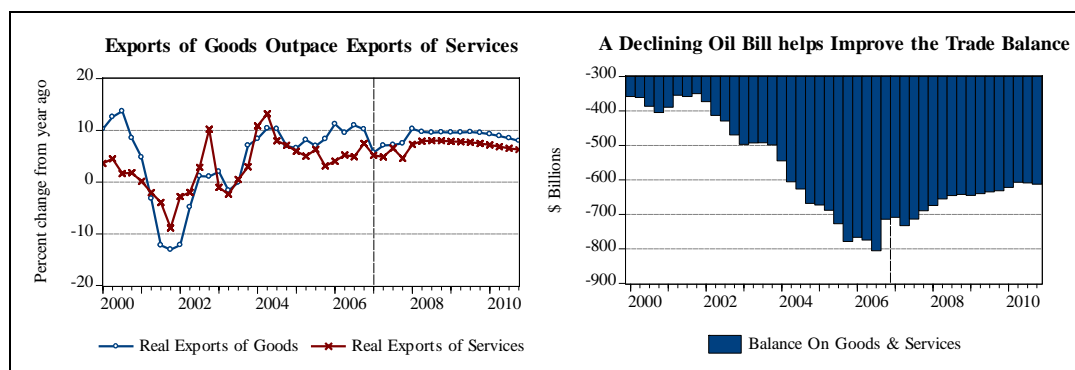
Foreign trade was a drag on first-quarter GDP growth, but did not reverse its major plus of the fourth quarter. Trade is still turning around, but quite erratically.

March was not a good month for the trade deficit. The deficit widened by \$6.0 billion, to \$63.9 billion, with a double-digit rebound in oil import volumes and a 5.8% rise in oil import prices pushing the oil import bill up by \$3.7 billion. Nonpetroleum imports rose by an even larger \$4.5 billion. Consumer goods and other industrial supplies were the major contributors to the import rise. The consumer goods surge was dominated by a \$1.3-billion spike in pharmaceuticals to well above normal levels, not by any rise in consumer electronics imports. Much of the rise in non-oil materials was in metals and chemicals, perhaps indicating preparation for an industrial production rebound. Automotive imports rose, but were almost offset by a rise in vehicle exports. Exports advanced by \$2.2 billion overall, despite a \$1.2 billion drop in aircraft. March appears to be an exception to the trend of gradual deficit improvement, because a "return to normal" in aircraft exports and drug imports could reverse 40% of the March deficit increase.

Exports should grow more than twice as fast as imports in both 2007 and 2008. The trade deficit thus shrinks from 5.8% of GDP in 2006 to only 3.1% by 2012 (about the same as in 2000). Softening oil prices and restrained real import growth (as consumer spending growth slows) help to limit the deficit, but world demand turning toward the United States' strong suit of capital goods powers much of the improvement.

The real (inflation-adjusted) trade deficit is projected at \$578 billion in 2007, down from \$618 billion in 2006. The gap then narrows further in 2008, to \$530 billion, rolling back below its 2004 level. Steady progress in subsequent years trims the deficit to \$490 billion in 2012. The nominal shortfall plummets during the first two years of the forecast period, as oil prices tumble from their record peaks of 2006; higher exports and sliding oil prices then push the deficit below \$600 billion on average during the last three years of the period. The current-account shortfall narrows in 2007, but then stalls around an \$800-billion average over the last five years of the forecast period. Wider deficits on both transfers and the income account offset an improvement in the goods and services deficit. But the current-account shortfall does keep shrinking relative to GDP.

Chart I.17



Inflation

Robust productivity growth during the second half of 2007 allows unit labor costs to decelerate, creating a favorable environment for the Federal Reserve. Year-over-year core PCE inflation hovers around the 2.0% mark for the remainder of this year, followed by a small cyclical rebound to a 2.1% average next year. Long-term inflation expectations remain anchored, as the Fed's commitment to low and stable inflation becomes increasingly credible.

The news from the inflation front improved in March. Although the overall consumer price index (CPI) jumped 0.6% in March, the "core" CPI, which excludes volatile food and energy prices, rose a modest 0.1%. A torrid double-digit gain in gasoline prices accounted for most of the outsized top-line increase.

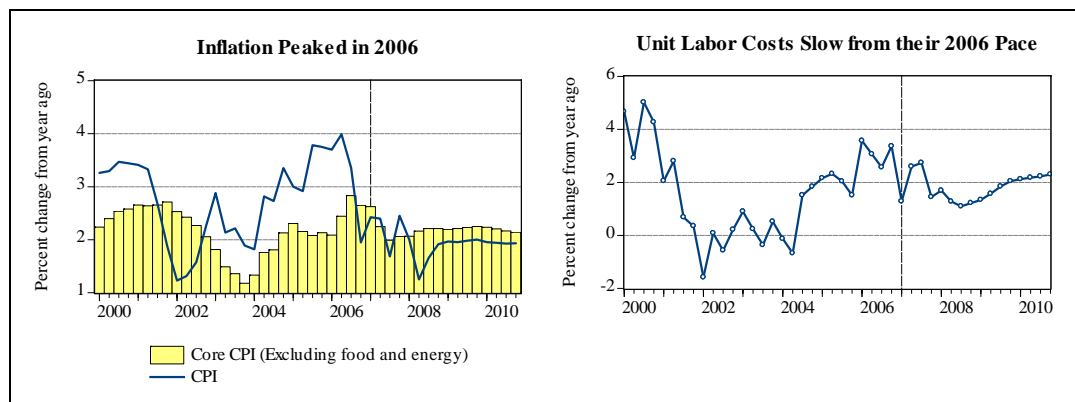
Numerous price declines were widely distributed throughout the core CPI, with substantial drops in apparel prices and hotel rates. Inflation expectations responded accordingly, and the core personal consumption expenditures (PCE) deflator (the Fed's preferred price gauge) was slightly above the Fed's presumed 1–2% tolerance band.

Consumer prices rose 0.4% in April following a comparatively rapid 0.6% rise in the previous month. Decelerating energy prices accounted for much of the April moderation. Excluding food and energy, "core" consumer prices rose an expected 0.2% (0.177% unrounded), following a 0.1% increase in March.

The preliminary report on first-quarter productivity and labor costs also contributed to the positive news. Output per labor hour in the nonfarm business sector increased at a faster-than-anticipated 1.7% annual rate, helping to restrain unit labor cost growth to a paltry 0.6%. By comparison, productivity growth averaged 1.6% in 2006, as unit labor costs rose an average 3.2%. At 1.7%, productivity growth edged closer to its underlying 2.0–2.5% trend range that has prevailed during the past decade. Given that corporate balance sheets are comfortably flush, the small first-quarter increase in unit labor costs can easily be absorbed in profit margins, rather than manifest as higher consumer prices.

The May forecast calls for labor productivity growth to accelerate to around 2.5% in the second half of the year, after a temporary second-quarter deceleration. Correspondingly, unit labor costs display a 2.6% spurt in the second quarter, before gains tail off in the third and fourth quarters. Labor productivity growth consequently averages 1.6% in 2007, before accelerating to 2.3% in 2008; unit labor costs climb 2.0% in 2007 and 1.3% in 2008. With these fundamentals in place, core PCE inflation (year-over-year basis) dances around the 2.0% mark for the final three quarters of 2007, before undergoing a modest cyclical rebound that yields a 2.1% average rate during 2008. The forecast assumes continuing Federal Reserve credibility in its commitment to low and stable inflation, resulting in a 2.0% long-term core PCE rate.

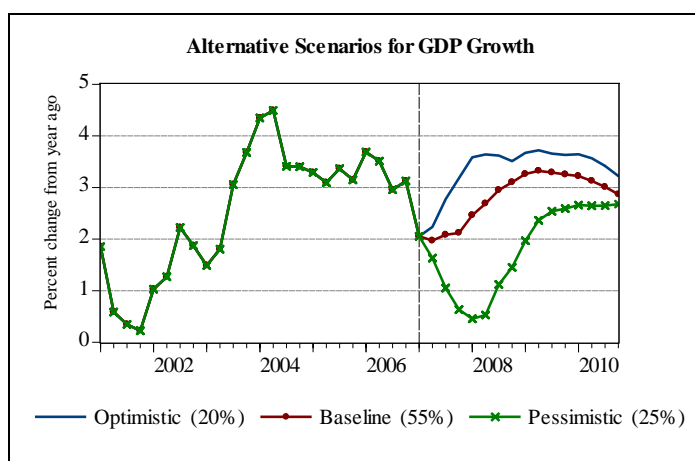
Chart I.18



RISKS TO THE FORECAST

Productivity growth has downshifted and is now running at 1.1% year-over-year (y/y). This is partly cyclical. When the economy slows, firms are reluctant to shed workers because training new employees is expensive. As a result, output falls more than hours and productivity growth slows. Undercounting job losses in the construction sector, where undocumented immigrants make up a significant share of employment, has also lowered the productivity numbers. Back-of-the-envelope calculations suggest that if construction employment had dropped as much as NIPA residential construction spending, productivity would be growing 1.6%, instead of 1.1%. But cyclical forces and measurement errors are only part of the story. Labor markets are tight, and many firms are adding workers to increase output because they are unable to boost production through productivity gains. Indeed, updated research by Federal Reserve economists Stephen Oliner, Daniel Sichel, and Kevin Stiroh indicates that trend productivity growth has slowed to about 2.25%, which is down from the 2.50% estimate they arrived at a year ago.

Chart I.19



The optimistic scenario incorporates the view that productivity growth will be strong many, many years into the future, and focuses on the momentum being created by the investment recovery. Indeed, the optimistic scenario resembles the late 1990s, when it seemed that the good times would last forever. The pessimistic scenario focuses on the upward pressures on global commodity prices and the downward trend in the dollar, with their negative implications for inflation, bond yields, and domestic demand. The simulation also includes a deeper housing downturn than in the baseline. This alternative forecast resembles the late 1970s, when it seemed the bad times would never end.

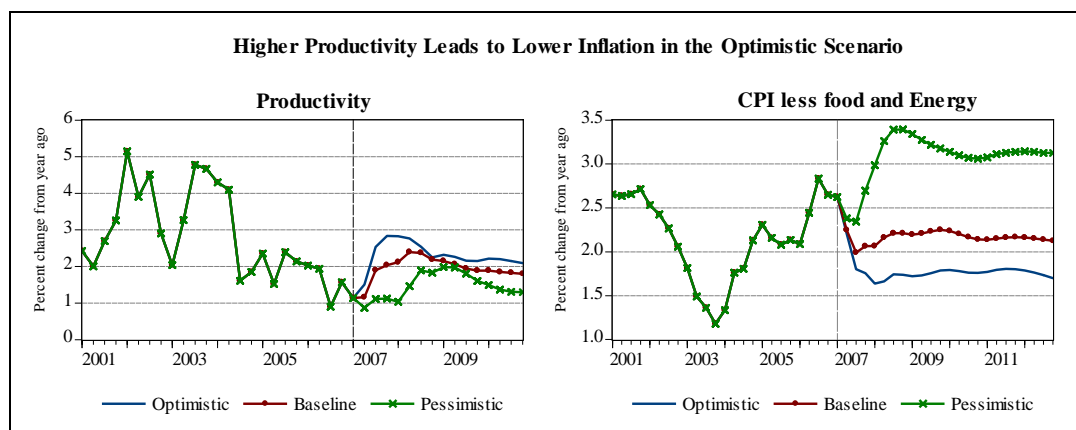
The Expansion Finds New Legs (20% Probability)

Renewed strength in total factor productivity growth provides the key assumption distinguishing the optimistic scenario from the baseline forecast. Total factor productivity, a measure of how technological progress augments economic growth, is enhanced by a reinvigorated information technology sector, like in the late 1990s. Rapid productivity gains are the main reason why economic growth and employment gains are higher and inflation and budget deficits are lower than in the baseline. It is also one reason why the dollar is stronger. Productivity gains, combined with the stronger currency, help to contain inflation. Faster growth in supply also makes the Federal Reserve's job easier.

Business fixed investment is more robust in the optimistic scenario. In fact, the current level of business spending is below average by historical standards. In 2006, business fixed investment accounted for 10.5% of GDP, nearly a full percentage point below the current 30-year average and well below the 12.5% share recorded in 2000, at the tail end of the information technology-fueled boom. In the optimistic scenario,

business spending (particularly on equipment and software) is considerably higher than in the baseline throughout the forecast period. For example, business spending peaks at 10.9% of GDP in 2010, compared with only 10.4% in the baseline.

Chart I.20



Residential investment is also stronger in the optimistic scenario, with housing bouncing back more forcefully in 2008 and maintaining a higher level throughout the forecast period. Housing starts average 1.62 million units in 2008, versus 1.48 million units in the baseline. The main reasons for this are stronger job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates. Foreign economic growth is also stronger, boosting U.S. exports and strengthening domestic manufacturing. Both developing and industrialized economies expand more quickly than in the baseline. As a result, real exports exhibit faster growth over the forecast period, despite the stronger dollar.

Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices drop back into the low \$50s/barrel region, \$7.50-8.50 below the baseline, while wellhead natural gas prices are also lower. Faster supply growth also produces a loosening in other tight commodity markets.

Under these assumptions, the economic outlook is much brighter. The current slowdown proves temporary, as real GDP growth rebounds to 4.1% by the third quarter of 2007, compared with only 2.4% in the baseline. For 2007, growth comes in at 2.6%, versus 2.1% in the baseline; 2008 growth is also much stronger, at 3.6%, compared with 2.8%. Although economic growth and labor markets are stronger, inflation is lower, due mainly to the rapid productivity gains. Consumer price inflation remains safely within the Federal Reserve's 1-2% tolerance band throughout the forecast period, rather than hovering around the upper boundary, as in the baseline. The lower inflation rate allows the Fed to keep the federal funds rate below the baseline value.

A Hard Landing (25% Probability)

After a quarter-century of declining inflation, signs of reacceleration are emerging. Soaring oil prices, a sliding dollar, and tightening labor markets may have produced the conditions for a serious pickup of inflation. The Federal Reserve is counting on continuing strong productivity gains to keep inflation at bay—but perhaps this is too sanguine a view.

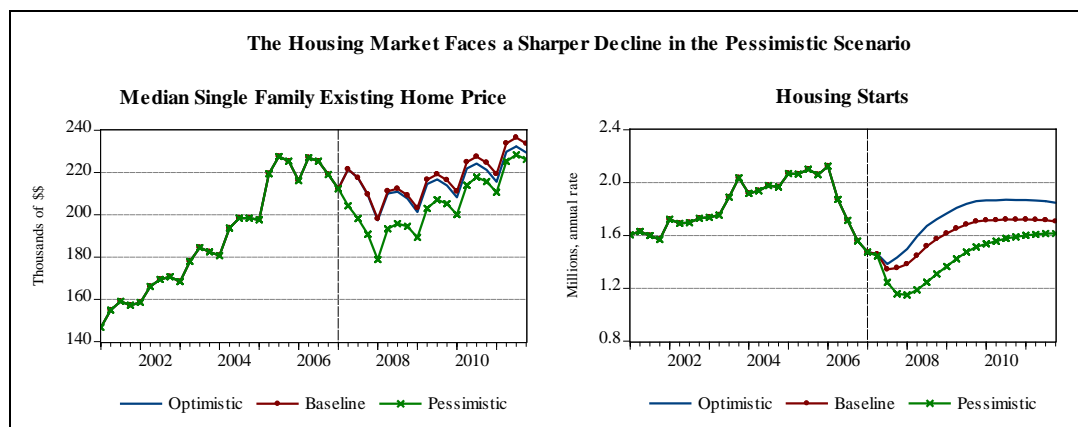
The pessimistic alternative assumes that there is less spare capacity than thought. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly, as foreign investors take fright at the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation.

In the pessimistic scenario, core inflation accelerates, and the Fed responds by tightening. Despite its more-aggressive stance, both the stock and bond markets slip on signs that the Fed may have let inflation build up

an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so it keeps hiking interest rates.

This simulation also has a deeper housing downturn than the baseline. Housing starts drop to 1.33 million units in 2007 (versus 1.41 million in the baseline). The median price of existing homes falls nearly 10% below the baseline in late 2007. Capital spending is also weaker. Indeed, beginning with the second quarter of 2007, spending on equipment and software declines over five straight quarters.

Chart I.21



Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. Core inflation stabilizes—but fails to retreat sufficiently. At the same time hiring falters, causing the unemployment rate to climb. The Fed, forced to choose between fighting inflation and encouraging economic and employment growth, focuses on the long-term consequences of its policy and chooses to battle inflation—in fact, inflation eventually tapers off. Debt-burdened consumers retrench further. Finally, early in 2009, with the unemployment rate above 6.0% and the federal funds rate at 7.0%, the Fed eases up. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the jobless rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

The economy nearly sinks into recession, falling well below its potential, with GDP growth at just 1.3% for all of 2007. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost relative to the baseline is never made up, though, and real GDP is about 6.0% below its baseline level at the end of 2017.

A summary of the U.S. Forecast is contained in Appendix 5.

APPENDICES

Appendix 1: Wisconsin Employment Forecast: Industry Detail (Annual)

Appendix 2: Wisconsin Employment Forecast: Industry Detail (Quarterly)

Appendix 3: Wisconsin Income Summary: Personal Income by Major Source (Annual)

Appendix 4: Wisconsin Income Summary: Personal Income by Major Source (Quarterly)

Appendix 5: U. S. Economic Forecast

APPENDIX 1

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

	History			Forecast				
	2004	2005	2006	2007	2008	2009	2010	2011
Total Nonfarm	2,807.1	2,842.1	2,861.1	2,872.4	2,898.4	2,935.9	2,968.8	2,989.4
% Change	1.1	1.2	0.7	0.4	0.9	1.3	1.1	0.7
Private Nonfarm	2,394.9	2,426.8	2,445.5	2,458.6	2,486.1	2,523.7	2,554.3	2,574.6
% Change	1.4	1.3	0.8	0.5	1.1	1.5	1.2	0.8
Natural Resources & Mining	3.8	4.0	3.9	4.1	3.9	3.9	4.0	3.9
% Change	2.2	3.0	-1.3	3.9	-3.2	0.3	0.4	-0.8
Construction	126.8	127.5	127.3	125.9	124.1	124.3	124.7	124.5
% Change	2.2	0.6	-0.2	-1.1	-1.4	0.1	0.4	-0.2
Manufacturing	502.8	504.9	505.0	499.9	497.0	496.6	496.9	495.2
% Change	-0.3	0.4	0.0	-1.0	-0.6	-0.1	0.0	-0.3
Trade, Transportation & Utilities	538.9	543.2	544.9	548.6	555.7	563.1	569.0	573.3
% Change	0.5	0.8	0.3	0.7	1.3	1.3	1.0	0.8
Information	49.9	49.8	49.2	50.0	50.3	50.9	51.8	52.4
% Change	-0.9	-0.3	-1.1	1.7	0.5	1.3	1.6	1.2
Financial Activities	158.7	159.8	161.1	161.5	164.8	167.8	170.6	172.8
% Change	1.2	0.7	0.8	0.2	2.1	1.8	1.7	1.3
Professional & Business Services	253.0	263.1	268.8	274.3	282.6	293.7	301.3	305.9
% Change	3.5	4.0	2.2	2.1	3.0	3.9	2.6	1.5
Education & Health Services	374.9	383.3	390.9	397.9	407.5	418.4	426.2	432.3
% Change	2.8	2.2	2.0	1.8	2.4	2.7	1.9	1.4
Leisure & Hospitality	250.8	255.2	258.2	259.2	262.7	266.7	270.8	274.6
% Change	2.2	1.7	1.2	0.4	1.4	1.5	1.5	1.4
Other Services	135.3	136.0	136.3	137.3	137.4	138.3	139.1	139.7
% Change	2.0	0.6	0.2	0.8	0.0	0.6	0.6	0.4
Government	412.2	415.3	415.6	413.8	412.3	412.1	414.5	414.8
% Change	-0.2	0.8	0.1	-0.4	-0.4	0.0	0.6	0.1
Federal Government	29.6	29.2	29.2	28.9	29.0	28.8	30.0	28.7
% Change	-0.8	-1.2	-0.1	-1.0	0.3	-0.6	4.0	-4.3
State & Local Government	382.6	386.1	386.4	384.9	383.3	383.3	384.6	386.1
% Change	-0.1	0.9	0.1	-0.4	-0.4	0.0	0.3	0.4

Household Survey Employment Measures

Labor Force	3,023.5	3,033.0	3,062.9	3,100.0	3,118.9	3,140.9	3,160.9	3,176.7
% Change	-0.5	0.3	1.0	1.2	0.6	0.7	0.6	0.5
Employment	2,871.0	2,887.4	2,918.2	2,945.7	2,960.1	2,987.4	3,011.8	3,025.7
% Change	0.1	0.6	1.1	0.9	0.5	0.9	0.8	0.5
Unemployment Rate (%)	5.0	4.8	4.7	5.0	5.1	4.9	4.7	4.8

APPENDIX 2

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL
(THOUSANDS OF WORKERS)

Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4	2008:1
Total Nonfarm	2,862.7	2,856.6	2,867.1	2,860.9	2,873.7	2,875.6	2,879.5	2,885.1
% Change	0.6	-0.9	1.5	-0.9	1.8	0.3	0.5	0.8
Private Nonfarm	2,447.4	2,442.4	2,447.8	2,446.4	2,459.8	2,462.1	2,466.3	2,472.3
% Change	0.5	-0.8	0.9	-0.2	2.2	0.4	0.7	1.0
Natural Resources & Mining	4.0	3.9	3.7	4.2	4.1	4.0	3.9	3.9
% Change	-3.3	-9.6	-19.0	66.0	-7.6	-12.0	-4.9	-1.1
Construction	128.1	125.8	126.0	126.3	126.8	125.6	124.7	124.2
% Change	-3.3	-7.0	0.5	1.2	1.4	-3.7	-2.7	-1.7
Manufacturing	506.2	505.2	502.6	496.0	502.4	501.1	500.1	498.5
% Change	0.2	-0.8	-2.0	-5.2	5.3	-1.0	-0.8	-1.2
Trade, Transportation & Utilities	544.4	543.1	547.5	547.8	548.2	548.4	549.9	552.4
% Change	-0.1	-1.0	3.3	0.2	0.2	0.2	1.1	1.8
Information	49.1	49.0	49.3	50.1	50.2	50.1	49.8	49.9
% Change	-2.9	-1.1	2.2	6.9	0.8	-1.0	-2.1	1.1
Financial Activities	161.2	161.0	161.5	160.7	160.8	161.7	162.6	163.5
% Change	1.4	-0.4	1.3	-2.1	0.3	2.4	2.2	2.3
Professional & Business Services	270.5	269.6	267.4	272.0	273.7	274.9	276.6	278.4
% Change	4.3	-1.2	-3.2	7.0	2.6	1.7	2.6	2.6
Education & Health Services	390.1	392.0	392.9	393.5	397.0	399.7	401.4	403.1
% Change	1.4	1.9	0.9	0.6	3.7	2.7	1.7	1.7
Leisure & Hospitality	258.0	256.8	258.9	258.4	258.7	259.4	260.2	261.2
% Change	-1.5	-1.7	3.3	-0.8	0.5	1.1	1.3	1.5
Other Services	135.9	135.9	138.0	137.4	137.8	137.1	137.0	137.1
% Change	1.2	0.1	6.2	-1.6	1.3	-2.0	-0.6	0.3
Government	415.3	414.2	419.4	414.6	413.9	413.5	413.2	412.8
% Change	1.7	-1.0	5.1	-4.5	-0.6	-0.4	-0.3	-0.4
Federal Government	29.3	29.2	29.1	28.8	28.9	28.9	29.0	29.1
% Change	0.9	-0.9	-1.8	-3.2	0.4	0.5	2.0	0.5
State & Local Government	386.0	385.0	390.3	385.7	385.1	384.6	384.2	383.7
% Change	1.7	-1.1	5.7	-4.7	-0.6	-0.5	-0.5	-0.5

Household Survey Employment Measures

Labor Force	3,058.8	3,066.2	3,072.4	3,091.8	3,099.0	3,103.1	3,106.1	3,110.6
% Change	0.6	1.0	0.8	2.6	0.9	0.5	0.4	0.6
Employment	2916.4	2,922.0	2,925.9	2,940.7	2,947.7	2,946.2	2,948.0	2,950.9
% Change	1.1	0.8	0.5	2.0	0.9	-0.2	0.2	0.4
Unemployment Rate (%)	4.7	4.7	4.8	4.9	4.9	5.1	5.1	5.1

APPENDIX 3

WISCONSIN INCOME SUMMARY
PERSONAL INCOME BY MAJOR SOURCE
(\$ Billions)

	History			Forecast				
	2004	2005	2006	2007	2008	2009	2010	2011
Total Personal Income	176.483	183.948	192.818	202.248	212.19	223.442	235.29	246.263
% Change	5.0	4.2	4.8	4.9	4.9	5.3	5.3	4.7
Wages and Salaries	99.118	102.108	106.593	110.914	115.779	121.62	127.672	133.286
% Change	5.0	3.0	4.4	4.1	4.4	5.0	5.0	4.4
Supplements to Wages and Salaries	24.501	25.927	27.159	28.307	29.272	30.378	31.711	33.143
% Change	5.5	5.8	4.7	4.2	3.4	3.8	4.4	4.5
Proprietor's Income	11.462	12.115	12.015	12.437	12.977	13.685	14.497	15.214
% Change	8.0	5.7	-0.8	3.5	4.3	5.5	5.9	4.9
Rental Income	2.285	1.779	1.409	1.552	1.345	1.099	1.076	1.136
% Change	-5.0	-22.1	-20.8	10.1	-13.3	-18.3	-2.1	5.6
Personal Dividend Income	10.617	11.403	12.884	14.623	16.375	17.954	19.305	20.283
% Change	30.4	7.4	13.0	13.5	12	9.6	7.5	5.1
Personal Interest Income	16.13	17.215	18.621	19.381	20.579	22.429	24.364	26.100
% Change	-5.0	6.7	8.2	4.1	6.2	9.0	8.6	7.1
Current Transfer Receipts	24.349	25.998	27.425	28.828	30.136	31.151	32.179	33.236
% Change	2.5	6.8	5.5	5.1	4.5	3.4	3.3	3.3
Residence Adjustment	3.144	3.303	3.495	3.692	3.932	4.213	4.507	4.806
% Change	4.3	5	5.8	5.6	6.5	7.1	7	6.6
Contributions to Government Social Ins.	15.123	15.900	16.784	17.486	18.205	19.085	20.022	20.941
% Change	5.1	5.1	5.6	4.2	4.1	4.8	4.9	4.6
Personal Tax & Nontax Payments	19.149	21.458	23.680	25.218	26.145	27.644	29.537	31.071
% Change	2	12.1	10.4	6.5	3.7	5.7	6.8	5.2
Disposable Personal Income	157.333	162.49	169.138	177.029	186.045	195.798	205.754	215.192
% Change	5.4	3.3	4.1	4.7	5.1	5.2	5.1	4.6

Related Income Measures

Personal Income (2000 \$) (\$ Billions)	162.835	164.985	168.315	172.897	178.176	183.892	189.857	194.75
% Change	2.3	1.3	2.0	2.7	3.1	3.2	3.2	2.6
Per Capita Income (2000 \$)	29,886	30,132	30,598	31,298	32,126	33,035	33,980	34,730
% Change	1.7	0.8	1.5	2.3	2.6	2.8	2.9	2.2
Per Capita Income (\$)	32,391	33,595	35,053	36,611	38,258	40,141	42,112	43,917
% Change	4.4	3.7	4.3	4.4	4.5	4.9	4.9	4.3
Per Capita Income as a Percent of U.S.	98.0	97.4	96.5	96.2	96.3	96.3	96.2	96.0

APPENDIX 4

WISCONSIN INCOME SUMMARY
 PERSONAL INCOME BY MAJOR SOURCE (\$ Billions)
 Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4
Total Personal Income	190.406	191.757	193.621	195.486	198.472	201.095	203.506	205.917
% Change	9.7	2.9	3.9	3.9	6.3	5.4	4.9	4.8
Wages and Salaries	106.087	106.137	106.433	107.714	109.476	110.269	111.381	112.53
% Change	14.2	0.2	1.1	4.9	6.7	2.9	4.1	4.2
Supplements to Wages and Salaries	26.848	27	27.245	27.542	27.856	28.198	28.495	28.679
% Change	11.2	2.3	3.7	4.4	4.6	5.0	4.3	2.6
Proprietor's Income	12.067	12.019	12.024	11.952	12.088	12.521	12.505	12.635
% Change	-6.7	-1.6	0.2	-2.4	4.6	15.1	-0.5	4.2
Rental Income	1.392	1.306	1.427	1.512	1.56	1.576	1.545	1.524
% Change	-28.2	-22.5	42.4	25.9	13.5	4.2	-7.7	-5.3
Personal Dividend Income	12.268	12.639	13.08	13.550	13.971	14.390	14.823	15.307
% Change	11.5	12.7	14.7	15.2	13	12.5	12.6	13.7
Personal Interest Income	18.087	18.676	18.996	18.726	18.967	19.292	19.547	19.716
% Change	2.6	13.7	7	-5.6	5.2	7.0	5.4	3.5
Current Transfer Receipts	26.9	27.226	27.687	27.888	28.271	28.635	29.044	29.362
% Change	10.1	4.9	6.9	2.9	5.6	5.2	5.8	4.5
Residence Adjustment	3.472	3.481	3.484	3.542	3.614	3.661	3.717	3.774
% Change	15.0	1.0	0.3	6.8	8.4	5.3	6.2	6.3
Contributions to Government Social Ins.	16.714	16.728	16.756	16.937	17.332	17.447	17.552	17.611
% Change	18.8	0.3	0.7	4.4	9.7	2.7	2.4	1.4
Personal Tax & Nontax Payments	23.315	23.514	23.764	24.126	24.778	25.156	25.358	25.582
% Change	23.5	3.5	4.3	6.2	11.2	6.2	3.3	3.6
Disposable Personal Income	167.091	168.243	169.857	171.36	173.694	175.94	178.148	180.336
% Change	7.9	2.8	3.9	3.6	5.6	5.3	5.1	5.0

Related Income Measures

Personal Income (2000 \$) (\$ Billions)	167.84	167.367	168.014	170.038	171.219	171.837	173.500	175.034
% Change	7.5	-1.1	1.6	4.9	2.8	1.5	3.9	3.6
Per Capita Income (2000 \$)	30,566	30,441	30,526	30,860	31,040	31,124	31,391	31,635
% Change	7.0	-1.6	1.1	4.5	2.4	1.1	3.5	3.1
Per Capita Income (\$)	34,676	34,878	35,178	35,478	35,981	36,424	36,820	37,216
% Change	9.2	2.3	3.5	3.5	5.8	5.0	4.4	4.4
Per Capita Income as Percent of U.S. (%)	96.6	96.6	96.5	96.4	95.9	96.3	96.3	96.3

APPENDIX 5
U.S. ECONOMIC FORECAST
GLOBAL INSIGHT

	2005	2006	2007	2008	2009	2010	2011
Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)							
Gross Domestic Product	11,048.6	11,415.2	11,650.2	11,976.7	12,369.7	12,747.7	13,085.3
% Change	3.2	3.3	2.1	2.8	3.3	3.1	2.6
Consumption	7,841.2	8,091.4	8,342.3	8,570.3	8,824.3	9,102.3	9,369.7
% Change	3.5	3.2	3.1	2.7	3.0	3.2	2.9
Investment (Incl. Inventory)	1,866.3	1,945.6	1,846.4	1,875.4	1,993.3	2,072.5	2,138.5
% Change	5.4	4.3	-5.1	1.6	6.3	4.0	3.2
Nonresidential Structures	251.5	274.0	292.1	294.3	293.1	300.2	306.2
% Change	1.1	9.0	6.6	0.7	-0.4	2.4	2.0
Business Equipment	984.9	1,048.6	1,066.0	1,117.4	1,200.5	1,262.2	1,321.9
% Change	8.9	6.5	1.7	4.8	7.4	5.1	4.7
Residential Fixed	608.0	582.3	487.7	464.5	492.7	512.4	522.1
% Change	8.6	-4.2	-16.2	-4.7	6.1	4.0	1.9
Inventory Change	19.6	43.2	17.0	27.7	46.0	42.3	41.2
Exports	1,196.1	1,302.8	1,386.1	1,513.7	1,650.3	1,783.4	1,907.7
% Change	6.8	8.9	6.4	9.2	9.0	8.1	7.0
Imports	1,815.3	1,920.9	1,964.2	2,044.2	2,161.7	2,286.7	2,415.6
% Change	6.1	5.8	2.3	4.1	5.7	5.8	5.6
Federal Government	727.5	742.0	755.3	769.2	767.9	770.7	768.0
% Change	1.5	2.0	1.8	1.8	-0.2	0.4	-0.4
State and Local Government	1,230.4	1,256.4	1,286.0	1,299.2	1,312.6	1,330.4	1,348.7
% Change	0.5	2.1	2.4	1.0	1.0	1.4	1.4
GDP (Current Dollars)	12,455.8	13,246.6	13,856.9	14,524.2	15,301.4	16,104.4	16,886.6
% Change	6.3	6.3	4.6	4.8	5.4	5.2	4.9

Employment, Unemployment, Wages and Prices

Nonfarm Employment (Millions)	133.7	136.2	137.9	139.3	141.4	143.4	144.9
% Change	1.7	1.9	1.3	1.1	1.5	1.4	1.0
Unemployment Rate (%)	5.1	4.6	4.7	4.9	4.7	4.5	4.4
Compensation per Hour (% Change)	4.1	4.8	3.6	3.6	3.7	4.1	4.2
Consumer Price Index (% Change)	3.4	3.2	2.2	1.7	2.0	1.9	2.0
Producer Price Index (% Change)	7.3	4.7	3.2	1.2	0.8	0.5	0.7
GDP Price Deflator (% Change)	3.0	2.9	2.5	1.9	2.0	2.1	2.2
Industrial Production (% Change)	3.2	4.0	1.7	2.3	3.0	2.7	2.4
Price of WTI Crude Oil (\$ Per Barrel)	56.6	66.1	62.1	61.4	62.0	61.8	61.8

Financial Markets

Money Supply (M2) (\$ Billions)	6,649.9	6,983.7	7,338.4	7,628.9	7,979.7	8,340.4	8,706.8
% Change	4.1	5.0	5.1	4.0	4.6	4.5	4.4
Prime Commercial Rate (%)	6.2	8.0	8.2	8.0	8.0	8.0	8.0
Three Month Treasury Bills (%)	3.1	4.7	4.9	4.9	4.9	4.9	4.9
Ten-Year Treasury Note Yield (%)	4.3	4.8	4.7	5.0	5.3	5.4	5.4
General Obligation AAA Municipals (%)	4.3	4.2	3.9	4.5	5.0	5.4	5.5
Thirty-Year Mortgage Rate (%)	5.9	6.4	6.2	6.6	6.9	7.0	7.0
S&P 500 Stock Index	1,207.1	1,310.7	1,461.7	1,527.1	1,608.8	1,694.4	1,796.0

Income, Profits and Savings

Personal Income (\$ Billions)	10,239.2	10,883.4	11,506.1	12,111.4	12,820.1	13,583.6	14,321.1
% Change	5.2	6.3	5.7	5.3	5.9	6.0	5.4
Personal Income (\$ 2000) (\$ Billions)	9,183.2	9,500.3	9,836.4	10,169.9	10,550.8	10,960.6	11,325.3
% Change	2.3	3.5	3.5	3.4	3.7	3.9	3.3
Personal Tax & Nontax Payments	1,203.1	1,360.6	1,467.1	1,532.8	1,628.3	1,756.6	1,861.7
% Change	14.6	13.1	7.8	4.5	6.2	7.9	6.0
Disposable Personal Income	9,036.1	9,522.8	10,039.0	10,578.6	11,191.7	11,827.0	12,459.4
% Change	4.1	5.4	5.4	5.4	5.8	5.7	5.3
Savings Rate (%)	-0.4	-1.1	-1.1	-0.4	0.2	0.6	0.9
Corporate Profits Before Tax (\$ Billions)	1,330.7	1,615.7	1,734.7	1,816.7	1,877.2	1,891.5	1,914.9
% Change	12.5	21.4	7.4	4.7	3.3	0.8	1.2

II. REVENUE COLLECTIONS REPORT

REVENUE COLLECTIONS THROUGH APRIL 2007

Introduction

State General Purpose Revenue (GPR) taxes collected by the Department of Revenue (DOR) during the first ten months of fiscal year (FY) 2007 increased 5.2% from the comparable period in FY 2006, from \$9.1 billion to \$9.7 billion.

During this period individual income tax receipts increased 8.2% to \$5,158.2 million, sales tax revenues increased 0.7% to \$3,091.6 million, and corporate collections increased 22.9% to \$748.7 million.

Table II.1 compares collections for the first ten months of FY 2007 with the first ten months of FY 2006.

Individual Income Tax

Through April of the current fiscal year, individual income tax collections increased 8.2% relative to the same period a year ago, from \$4,767.9 to \$5,158.2 million. The largest component of individual income tax collections, withholding from wages and salaries, increased 6.6%, from \$4,567 billion in FY 2006 to \$4,866 in the current fiscal year.

Refunds during the period from July to April increased 4.8% (\$58.6 million) compared to FY 2006. Payments with returns increased 11.6% through April of this year when compared to last year, an increase of \$45.5 million. Estimated payments, due quarterly, are up 8.7% (\$71.6 million).

The homestead credit decreased 6.7% year-to-date from last year, while the earned income credit grew 4.3% over last year at this time.

General Sales and Use Tax

Sales tax collections through April 2007 increased 0.7% over the same period of the previous fiscal year, from \$3,071.6 million in April 2006 to \$3,091.6 million in April 2007.

The slow growth in sales tax collections in Wisconsin is also being seen by many states around the nation. This is partly reflective of the slow down in the housing market, as consumers spend less on home improvements and home furnishings.

Corporation Income and Franchise Tax

Collections of corporate income and franchise taxes increased 22.9% in the first ten months of the fiscal year when compared to fiscal year 2006, from \$609.3 million in April 2006 to \$748.7 million in April of 2007.

Estimated payments, the largest source of corporate income taxes, increased 17.3% over the previous year. Franchise taxes have grown 27.7% over fiscal year 2006. Refunds have increased 6.6%.

Excise Taxes

Cigarette tax collections have decreased this year, down 1.3% from \$221.3 million through April 2006 to \$218.5 million through April 2007.

Liquor and wine tax collections have grown 0.9% over the same period last year, from \$31.5 million in 2006 to \$31.8 million in 2007.

Tobacco products tax collections have increased 7.8%, from \$12.0 million through the first ten months of 2006 to \$12.9 million through the first ten months of 2007.

Beer tax collections have decreased in fiscal year 2007, shrinking 4.3% from \$7.0 million through April of 2006 to \$6.7 million through April of 2007.

Public Utility Taxes

In the first ten months of fiscal year 2007, collections of public utility taxes have increased 16.2%, from \$123.4 million in 2006 to \$143.4 million in 2007.

Estate Tax

Year-to-date estate tax collections have grown 2.3% during the first ten months of the current fiscal year. This reflects growth from \$94.5 million in FY 2006 to \$96.6 million in FY 2007.

Insurance Company Taxes

Insurance company tax collections increased 4.8%, from \$103.1 million through April of FY 2006 to \$108.0 million through April of FY 2007.

Real Estate Transfer Fee

Collections of the real estate transfer fee are down 12.8% through April of fiscal year 2007, from \$60 million in 2006 to \$52.4 million in 2007. This is reflective of the troubles in the housing market since mid-2006; revenues in this category have been consistently 12-14% below the previous year.

TABLE II.1
COMPARISON OF JULY-APRIL DEPARTMENT OF REVENUE
ACTUAL TAX RECEIPTS
(\$ Millions)

Tax Sources	First Ten Months of:		% Change
	FY 2006	FY 2007	
Individual Income	\$ 4,767.9	\$ 5,158.2	8.2%
General Sales Tax	3,071.6	3091.6	0.7
Corporation Franchise & Income	609.3	748.7	22.9
Excise			
Cigarette	221.3	218.5	-1.3
Liquor	31.5	31.8	0.9
Tobacco	12.0	12.9	7.8
Beer	7.0	6.7	-4.3
Public Utility	123.4	143.4	16.2
Inheritance, Estate & Gift	94.5	96.6	2.3
Insurance	103.1	108.0	4.8
Real Estate Transfer	60.0	52.4	-12.8
Total	\$ 9,101.6	\$ 9,669.2	6.2%

Note: Detail may not add to totals because of rounding, and % changes were calculated before rounding.

III. SPECIAL REPORT

WISCONSIN'S GROWING EXPORT ECONOMY

Wisconsin exports grew 15.0% in 2006 and 17.4% in 2005. In 2006, Wisconsin exports totaled \$17.2 billion, an increase of 64% since 2001.² Canada is the largest importer of Wisconsin's products, consuming 31.7% of all exports, or \$5.4 billion worth of goods. The second-largest destination was Mexico, receiving 10.8% of shipments, totaling \$1.9 billion. The next three largest importers were China (\$870 million), Japan (\$739 million) and the United Kingdom (\$686 million).

Wisconsin exports made up 1.7% of the nation's \$1 trillion in exports in 2006. It is ranked 19th of all states, with Minnesota coming in right below at 20th. The three largest exporting states, Texas, California, and New York, together account for one-third of all U.S. exports. Canada and Mexico are the largest importers of U.S. goods, receiving 22% and 13% of the total, respectively.

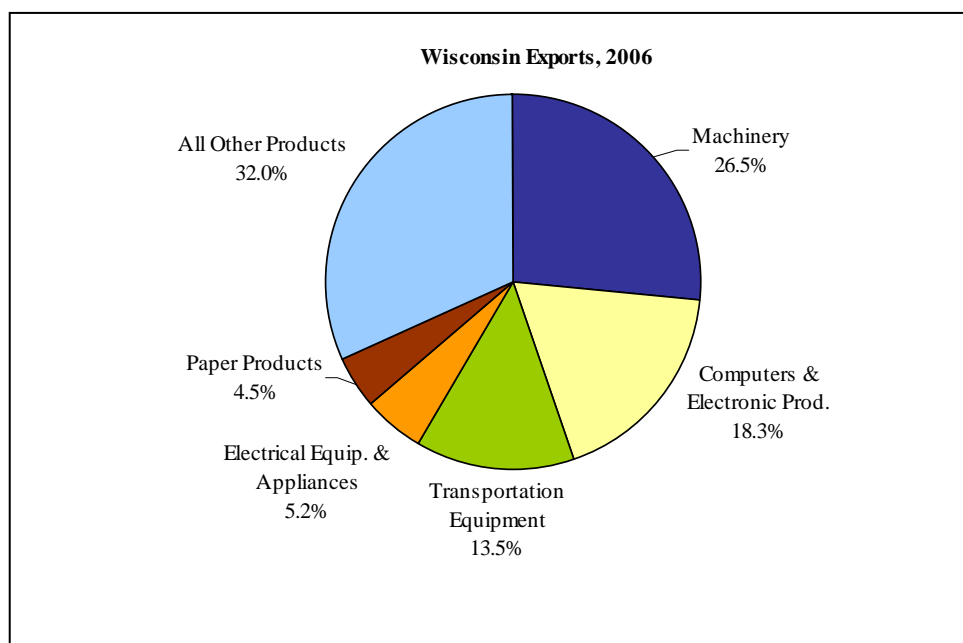
Wisconsin exports accounted for 6.6% of Gross State Product (GSP) in 2005. Nationally, exports accounted for 7.0% of Gross Domestic Product (GDP). By this measure, Wisconsin ranked 15th in 2005 out of the 50 states.

Top Export Industries

Machinery

Machinery manufacturing includes agricultural, construction, and industrial machinery, as well as HVAC units, engines, and power transmission equipment.³ In Wisconsin, employment is concentrated in general purpose machinery, which produces diverse products such as forklifts, compressors, and hydraulic jacks; and

Chart III.1



² The export data discussed here is from the Origin of Movement (OM) series from the Foreign Trade Division of the U.S. Census Bureau.

³ The industry groups discussed are defined by the North American Industry Classification System (NAICS). For more information see <http://www.census.gov/epcd/www/naics.html>.

agricultural, construction, and mining machinery, such as tractors and bulldozers. Machinery makes up the bulk of Wisconsin's exports. In 2006, 26.5% of Wisconsin exports worth \$4.6 billion fell into this category. Wisconsin ranks relatively high in this category of exports at sixth in the nation, representing 3.9% of machinery exports from the U.S.

Computers and Electronic Products

Computers and electronic products include computers, telephone equipment, broadcasting equipment for radio and television, audio and video equipment, semiconductor and electronic components, and electronic instruments (such as watches, clocks, and navigation equipment). The largest share of employment in this sector in Wisconsin is in electronic instruments. Exports in computer and electronic products totaled \$3.1 billion in 2006, or 18.3% of total exports. Wisconsin ranks 12th among the states in exports in this sector.

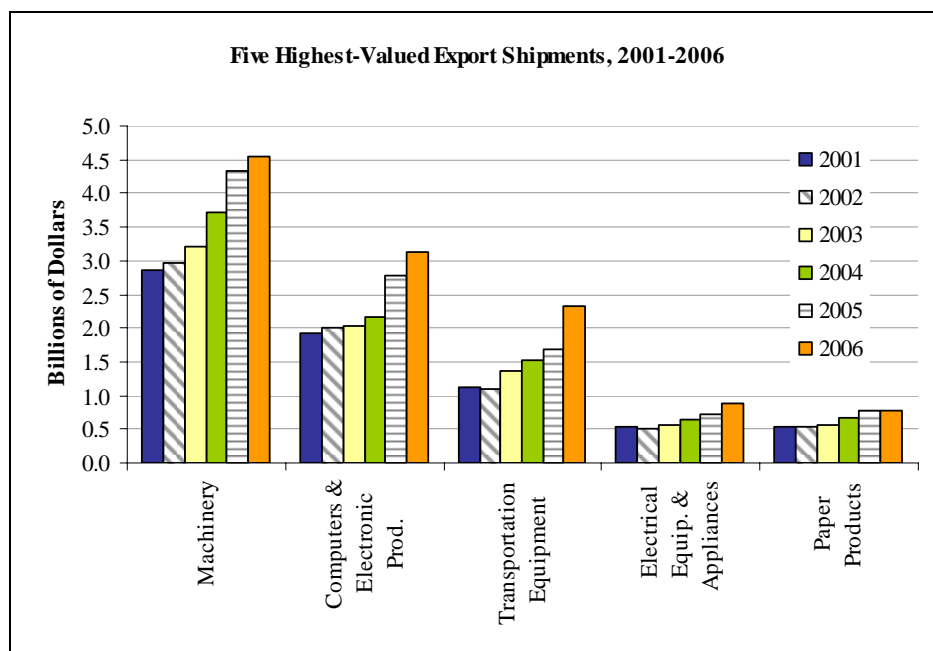
Transportation Equipment

Transportation equipment includes cars, truck, boats, railroad cars, planes, motorcycles, military vehicles, and other equipment used to move people and goods, as well as the parts used to produce these goods. In Wisconsin, motor vehicle parts makes up the greatest share of employment in this sector. Exports of transportation equipment made up 13.5% of total exports, coming to \$2.3 billion worth of goods. Transportation is the nation's largest export sector, and Wisconsin ranks 20th.

Electrical Equipment

Electrical equipment and appliances manufacturing is the production of lighting fixtures, household appliances such as refrigerators and washers and dryers, and electrical equipment (transformers, generators, batteries, fiber optic cables, and wiring devices). In Wisconsin, employment is concentrated in electrical equipment. The sector as a whole represented 5.2% of Wisconsin exports in 2006, valued at \$887 million. Wisconsin ranks tenth in the nation in exports in electrical equipment and appliances.

Chart III.2



Paper Manufacturing

Paper manufacturing is split into two main categories. The first category, pulp, paper, and paperboard mills, create the pulp for paper production, as well as paper, newsprint, and cardboard. The second category, converted paper products, creates more advanced paper products such as corrugated paper, coated papers, paper towels, and disposable diapers. Wisconsin employment in paper manufacturing is split nearly evenly between the two categories. Paper products made up the fifth largest sector of export goods in Wisconsin in 2006. Exports totaled \$775 million, accounting for 4.5% of all Wisconsin exports. The state ranked seventh in the nation, representing 4.2% of the exported paper from the U.S.

Agriculture

Agricultural products include goods from crop production, animal production, and fishing, hunting, and trapping. Combined, these goods represented 2.8% of all exports in 2006. According to a report by the Wisconsin Department of Agriculture, Trade, and Consumer Protection, the top agriculture exports were unmilled cereals (\$258.6 million); bakery related products, such as prepared cereals, flours, starches, and milks (\$118.7 million); and raw hides, skins, and leather (\$99.4 million). Wisconsin is the second largest exporter of cheese (\$46 million), behind California. Export revenues account for 20% of all Wisconsin farm cash receipts.

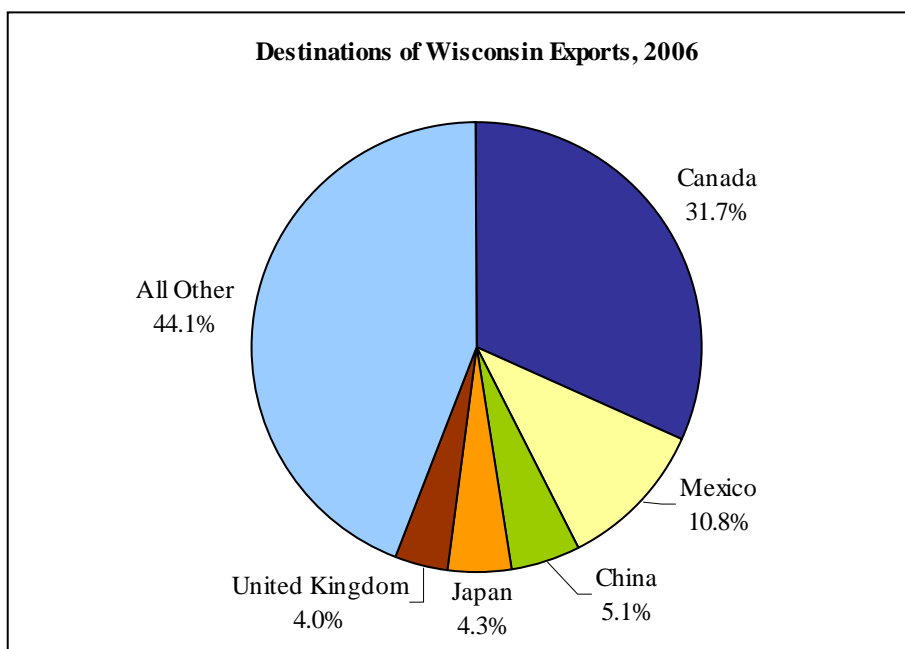
Details of Wisconsin's Export Industries are presented in Table III.1.

Top Export Markets

Canada

Canada continues to be Wisconsin's largest trading partner, accounting for 31.7% of all Wisconsin exports. Because of their proximity, similar language and cultural influences, trade with Canada has few hurdles. Looking forward, Canada's economy is expected to continue to grow, creating a welcome market for Wisconsin's products.

Chart III.3



Wisconsin exports to Canada have increased by 44% since 2001, from \$3.8 billion to \$5.4 billion in 2006. Twenty-four percent of 2006 exports to Canada was machinery, for a total of \$1.3 billion. Transportation equipment accounted for 20.2% of exports (\$1.1 billion); paper products, 8.7% (\$480 million); and computers and electronic products, 6.6% (\$360 million).

Mexico

In 2001, Japan was Wisconsin's second-largest trading partner. However, as a result of the relaxing of trade barriers in North America, exports to Mexico have increased 177% since then, making the nation to the south the second-largest importer of Wisconsin products since 2004. In 2006, 10.8% of shipments exported from Wisconsin went to Mexico, totaling \$1.9 billion. The Mexican economy is expected to grow between 3.4 and 3.7%, providing a healthy market for Wisconsin exports.⁴

Waste & Scrap (\$560 million) was the most common product shipped to Mexico, making up nearly a third of all shipments. Machinery represented 15.6% (\$290 million) of total exports in 2006; electrical equipment and appliances, 8.2% (\$150 million); and transportation equipment, 8.1% (\$150 million).

China

As recently as 2001, China was not one of the top five destinations for Wisconsin exports. However, exports to China have increased 172% since then, and China became the third-largest destination for Wisconsin goods in 2006. Exports to China accounted for 5.1% of all Wisconsin exports in 2006. With an economy growing 10% a year and a population more than four times that of the U.S., there is increasing demand for Wisconsin's products.⁴

Exports of machinery to China have increased 269% since 2001. In 2006, valued at \$270 million, machinery represented 30.9% of all Wisconsin exports to China. Computers and electronic equipment exports accounted for 27.4% of exports (\$240 million); primary metal, 6.7% (\$58 million); and waste and scrap, 6.1% (\$53 million).

Japan

Exports from Wisconsin to Japan have stayed mostly steady since 2001. In that year, Wisconsin exported \$733 million in goods to Japan, making it the second largest destination for exports behind Canada. After increasing its imports to \$958 million in 2002, Wisconsin exports to Japan have decreased, and in 2006 Japan imported \$739 million of Wisconsin's products. Japan's share of total 2006 Wisconsin exports is 4.3%.

Computers and electronic products have been the most common Wisconsin good exported to Japan. In 2006, Wisconsin shipped \$301.6 million worth of computers and electronics there, 40.8% of all exports to Japan. Machinery accounted for 21.0% of Wisconsin exports to Japan, valued at \$155 million; transportation equipment, 7.7% (\$57 million); and processed foods, also 7.7% (\$57 million).

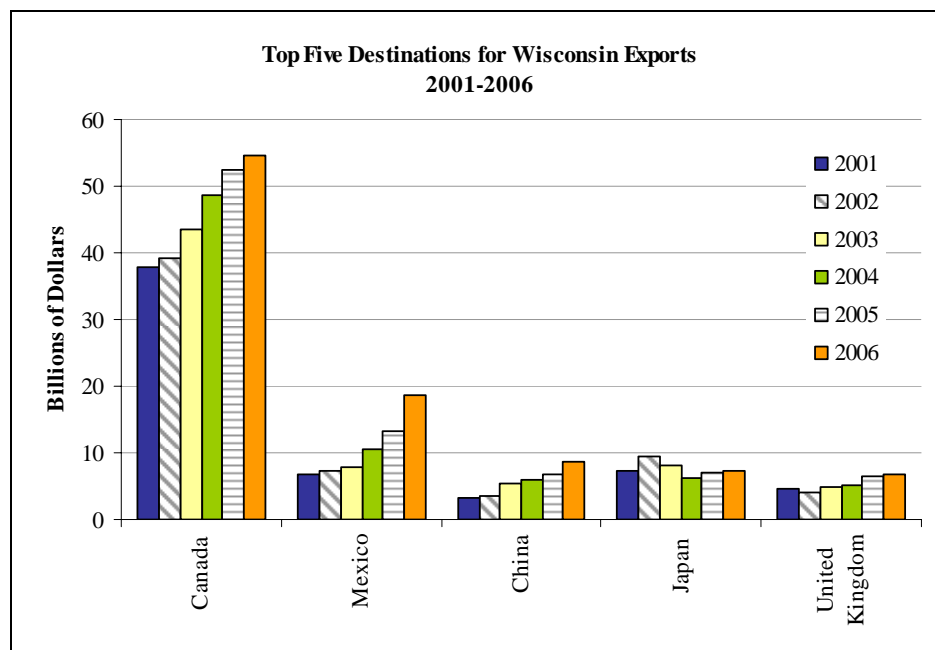
United Kingdom

The United Kingdom has increased the amount of exports it receives from Wisconsin 53.2%, from \$448 million in 2001 to \$686 million in 2006. Its economy is expected to grow 2.6 and 2.3% in 2007 and 2008.⁴ A weakening dollar will help contribute to the amount of exports it receives from the U.S., including goods from Wisconsin. The United Kingdom is the fifth largest importer of Wisconsin goods and accounts for 4.0% of all Wisconsin exports in 2006.

The number one product shipped from Wisconsin to the United Kingdom is computer and electronics, representing 27.1% of exports, or \$186 million in goods. Machinery accounted for 24.6% of Wisconsin exports to the U.K., valued at \$169 million; transportation equipment, 14.4% (\$99 million); and processed foods, 6.5% (\$44 million).

⁴ Consensus Forecasts – USA, April, 2007, by Consensus Economics, Inc.

Chart III.4



Other Growing Markets

There are several other export markets to note. Australia was the third-largest importer of Wisconsin machinery in 2006, and Belgium the fifth-largest importer. France received \$206 million in computer and electronic products from Wisconsin in 2006, making it the fourth-largest importer in this category. Saudi Arabia jumped to the number two spot on the list of transportation equipment exports from Wisconsin, and Venezuela climbed into the fifth spot. Bangladesh is now the fifth-largest importer of Wisconsin's electrical equipment and appliances, and Brazil is the fourth-largest importer of paper products.

There are more international trade opportunities coming. Oshkosh Truck signed a \$4.9 million contract with the Egyptian Ministry of Defense for specially designed military trucks in February of this year.⁵ Harley Davidson works to penetrate the Chinese motorcycle market and opened its first dealership in mainland China last year. There is also in process a deal to export Wisconsin timber to China, worth \$50 to \$100 million.⁶

Details of the Destinations for Wisconsin Export are presented in Table III.2.

Export Related Employment

The U.S. Census Bureau examines the effect manufactured exports have on employment. The most recent data relates to 2003 and includes employment directly related to manufacturing exports, as well as those indirectly supporting the export market.

All total, 131,200 jobs in Wisconsin in 2003 existed because of manufactured exports, about 4.6% of total employment in the state.⁷ Nationally, the proportion of jobs related to manufactured exports is 4.5% of total employment. Washington State has the highest share, at 7.7%. Its biggest export sectors are transportation (Boeing) and computers and electronic products (Microsoft).

⁵ News Releases, Oshkosh Truck Corporation

⁶ "Wisconsin presides but wins no prize", Milwaukee Journal Sentinel, May 14, 2007

⁷ Office of Trade and Industry Information, International Trade Administration, U.S. Dept. of Commerce

Forty-four thousand Wisconsin manufacturing jobs were directly related to exports in 2003, 4.2% of total manufacturing jobs in the state. Another 88,800 jobs are indirectly related to exports of manufactured exports. This includes 24,600 in manufacturing, 8,800 in transportation, 23,700 in wholesale and retail trade, 13,300 in business services, and another 16,400 spread through other non-manufacturing sectors.

For Wisconsin's manufacturing sector as a whole, 14.2% of all manufacturing jobs were engaged in export activity. In Wisconsin's top export industries, manufacturing employment related to exports ranged from 9% to 31% of total employment in the subsector in 2003. In machinery manufacturing 26.2% of employment was engaged in exports, coming to 16,300 jobs. Thirty-one percent of the employment in computers and electronic products were related to exports, totaling 5,000 jobs. In transportation equipment, 6,200 jobs were engaged in the production of exports, representing 16.4% of employment in this sector. Twenty-one percent of employment in electrical equipment and appliances (5,600 employees) were related to manufacturing, and in paper products, 8.9% (3,200 jobs).

Chart III.5

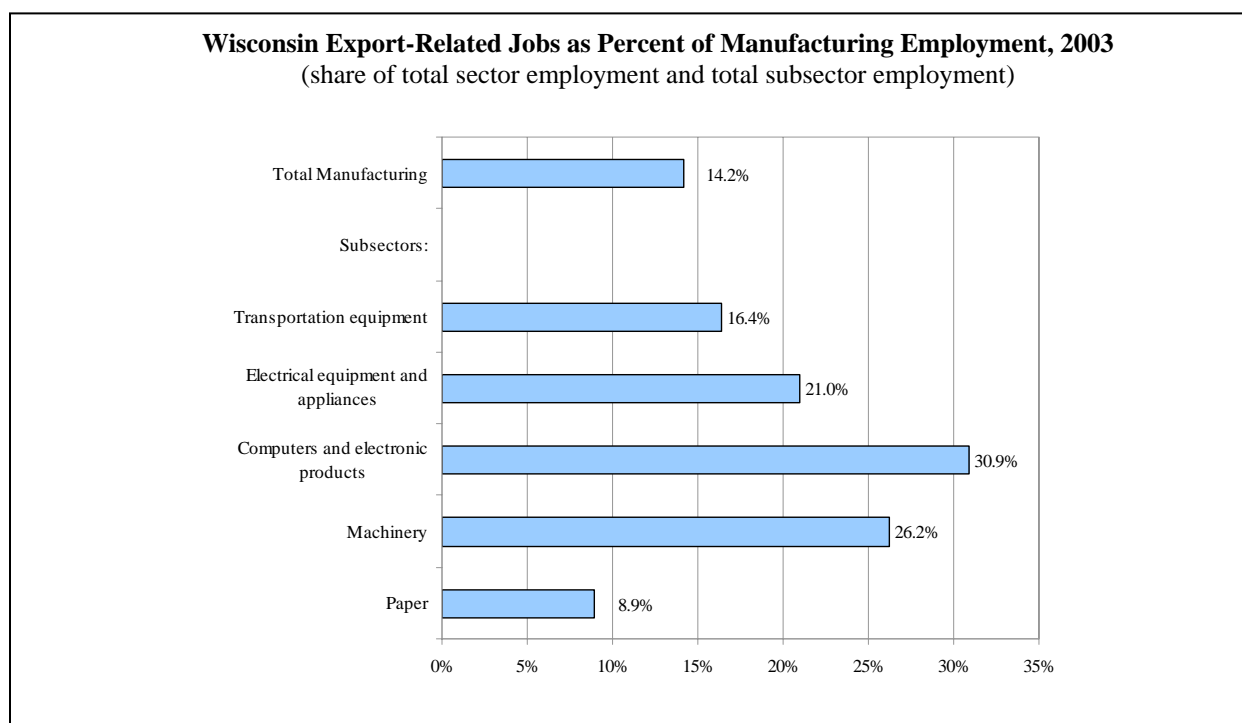


TABLE III.1
WISCONSIN EXPORTS: INDUSTRY DETAIL
(THOUSANDS OF DOLLARS)

	2001	2002	2003	2004	2005	2006
Total	10,488,671	10,684,271	11,509,835	12,706,343	14,923,487	17,169,113
% change		1.9	7.7	10.4	17.4	15.0
Machinery Manufactures	2,859,992	2,978,713	3,217,463	3,714,963	4,322,014	4,556,200
% change		4.2	8.0	15.5	16.3	5.4
Computers & Electronic Prod.	1,929,248	1,999,687	2,042,970	2,168,159	2,788,994	3,138,727
% change		3.7	2.2	6.1	28.6	12.5
Transportation Equipment	1,110,773	1,108,516	1,374,288	1,518,503	1,677,101	2,315,984
% change		-0.2	24.0	10.5	10.4	38.1
Elec. Eq., Appliances & Parts	533,148	519,288	548,561	653,287	712,217	887,308
% change		-2.6	5.6	19.1	9.0	24.6
Paper Products	543,235	528,315	563,187	664,924	772,556	774,742
% change		-2.7	6.6	18.1	16.2	0.3
Chemical Manufactures	555,492	589,793	585,332	638,795	706,644	740,514
% change		6.2	-0.8	9.1	10.6	4.8
Processed Foods	622,776	571,707	650,636	560,429	668,599	716,463
% change		-8.2	13.8	-13.9	19.3	7.2
Waste & Scrap	22,417	27,012	41,782	166,068	310,228	660,389
% change		20.5	54.7	297.5	86.8	112.9
Fabricated Metal Products	381,837	381,120	352,939	422,332	476,811	531,968
% change		-0.2	-7.4	19.7	12.9	11.6
Misc. Manufactures	322,256	366,832	380,567	387,631	447,621	489,136
% change		13.8	3.7	1.9	15.5	9.3
All Other	1,607,497	1,613,267	1,752,003	1,810,870	2,040,492	2,357,465
% change		0.4	8.6	3.4	12.7	15.5

Source: Origin of Movement (OM) series from the Foreign Trade Division of the U.S. Census Bureau.

TABLE III.2
WISCONSIN EXPORTS: DESTINATION DETAIL
(THOUSANDS OF DOLLARS)

	2001	2002	2003	2004	2005	2006
World Total	10,488,671	10,684,271	11,509,835	12,706,343	14,923,487	17,169,113
% change		1.9	7.7	10.4	17.4	15.0
Canada	3,771,344	3,923,197	4,349,326	4,856,674	5,237,728	5,446,925
% change		4.0	10.9	11.7	7.8	4.0
Mexico	670,109	716,951	788,033	1,064,414	1,333,043	1,854,465
% change		7.0	9.9	35.1	25.2	39.1
China	319,570	359,024	548,228	583,303	673,767	870,287
% change		12.3	52.7	6.4	15.5	29.2
Japan	733,008	957,658	816,690	624,627	695,965	738,809
% change		30.6	-14.7	-23.5	11.4	6.2
United Kingdom	448,025	417,230	493,976	517,304	642,836	686,452
% change		-6.9	18.4	4.7	24.3	6.8
Germany	376,260	425,131	448,464	460,588	549,555	582,727
% change		13.0	5.5	2.7	19.3	6.0
Saudi Arabia	98,224	90,556	90,656	91,955	167,531	505,112
% change		-7.8	0.1	1.4	82.2	201.5
France	366,144	340,097	371,093	364,565	414,631	467,838
% change		-7.1	9.1	-1.8	13.7	12.8
Australia	241,564	255,158	279,937	325,525	424,739	466,617
% change		5.6	9.7	16.3	30.5	9.9
South Korea	220,859	214,924	258,387	273,018	307,939	342,519
% change		-2.7	20.2	5.7	12.8	11.2
All Other	3,243,564	2,984,294	3,064,943	3,544,317	4,475,523	5,207,047
% change		-8.0	2.7	15.6	26.3	16.3

Source: Origin of Movement (OM) series from the Foreign Trade Division of the U.S. Census Bureau.